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**KYRGYZ REPUBLIC**

# USAID Business Growth Initiative (BGI)

**Year 2, First Quarterly Report**

**Fourth Quarter 2015**

**January 30, 2016**

This publication was produced for review by the United States Agency for International Development. It was prepared for the USAID Business Growth Initiative Project, task order number AID-176-TO-14-00001, implemented by Deloitte Consulting, LLP

# **USAID Business Growth Initiative (BGI) Year 2, First Quarterly Report Fourth Quarter 2015**

USAID BUSINESS GROWTH INITIATIVE  
CONTRACT NUMBER: AID-176-I-11-00005  
TASK ORDER NUMBER: AID-176-TO-14-00001

DELOITTE CONSULTING, LLP

January 30, 2016

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## Table of Contents

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|                                                                                          |           |
|------------------------------------------------------------------------------------------|-----------|
| <b>1. SUMMARY OF ACTIVITIES AND MAJOR ACCOMPLISHMENTS DURING FIRST PROJECT YEAR.....</b> | <b>4</b>  |
| <b>2. CHALLENGES AND RISKS TO PROJECT IMPLEMENTATION .....</b>                           | <b>5</b>  |
| <b>3. TEXTILE/APPAREL VALUE CHAIN.....</b>                                               | <b>5</b>  |
| BGI's ACTIVITIES IN Q4 2015.....                                                         | 5         |
| NEW BGI INITIATIVES PLANNED FOR Q1 2016 .....                                            | 9         |
| <b>4. TOURISM VALUE CHAIN .....</b>                                                      | <b>10</b> |
| BGI's ACTIVITIES IN Q4 2015.....                                                         | 10        |
| <b>5. CONSTRUCTION MATERIALS VALUE CHAIN.....</b>                                        | <b>14</b> |
| BGI's ACTIVITIES IN Q4 2015.....                                                         | 14        |
| <b>6. GENDER/YOUTH.....</b>                                                              | <b>15</b> |
| BGI's ACTIVITIES IN Q4 2015.....                                                         | 15        |
| NEW BGI INITIATIVES PLANNED FOR Q1 2016 .....                                            | 17        |
| <b>7. PROGRESS OF ACTIVITIES FOR STRENGTHENING HUMAN CAPITAL .....</b>                   | <b>17</b> |
| BGI's ACTIVITIES IN Q4 2015.....                                                         | 17        |
| NEW BGI INITIATIVES PLANNED FOR Q1 2016 .....                                            | 19        |
| <b>8. TAX POLICY AND ADMINISTRATION.....</b>                                             | <b>21</b> |
| BGI's ACTIVITIES IN Q4 2015.....                                                         | 21        |
| <b>9. BUSINESS REGULATIONS – LICENSING AND INSPECTIONS.....</b>                          | <b>25</b> |
| BGI's ACTIVITIES IN Q4 2015.....                                                         | 25        |
| <b>10. ACCESS TO FINANCE .....</b>                                                       | <b>27</b> |
| BGI's ACTIVITIES IN Q4 2015.....                                                         | 27        |
| <b>11. CIVIL AVIATION SAFETY.....</b>                                                    | <b>29</b> |
| BGI's ACTIVITIES IN Q4 2015.....                                                         | 29        |
| <b>12. MINING POLICY AND CAPACITY DEVELOPMENT .....</b>                                  | <b>30</b> |
| BGI's ACTIVITIES IN Q4 2015.....                                                         | 30        |
| <b>13. WORLD TRADE ORGANIZATION (WTO) COMMITMENTS.....</b>                               | <b>31</b> |
| BGI's ACTIVITIES IN Q4 2015.....                                                         | 31        |
| NEW BGI INITIATIVES PLANNED FOR Q1 2016 .....                                            | 31        |
| <b>14. GRANTS PROGRAM LAUNCH.....</b>                                                    | <b>32</b> |
| BGI's ACTIVITIES IN Q4 2015.....                                                         | 32        |
| <b>15. LOCAL SUBCONTRACTS AND CONSULTANTS.....</b>                                       | <b>33</b> |
| <b>16. FINANCIAL RESULTS .....</b>                                                       | <b>36</b> |
| <b>17. REPORT ANNEXES .....</b>                                                          | <b>36</b> |

## 1. Summary of Activities and Major Accomplishments during First Project Year

The following have been BGI's primary activities and major accomplishments in the fourth quarter of 2015:

**BGI Grants Launch.** On November 6, BGI officially launched its grants program, which provides funding to non-government organizations (NGOs), educational institutions and private sector players to pursue innovative programs that further BGI's economic development goals. Nearly 100 potential grantees attended BGI's grants kickoff workshop held in Bishkek on November 6, in which the BGI grants team highlighted program and eligibility requirements and application and award processes. The team subsequently conducted similar workshops in each of Kyrgyzstan's seven oblasts to a total of 409 participants nationwide.

**Apparel Sales and Marketing Initiative.** Beginning in November, Mr. Mike Mikkelsen, BGI's apparel sector advisor, has developed an innovative marketing and sales approach for a select group of front runner and leader firms to attract the attention and interest of international buyers. This approach integrates the following aspects: (1) *Attraction*, which relates to how to identify the right buyers/customers and select samples to re-engineer that will attract the attention of a buyer; (2) *Best Price*, which requires understanding customers' target retail prices and profit margin requirements so that Kyrgyz producers can then calculate costs and sales prices that meets the buyer's pricing requirements (3) *Speed to Consumer*, which reduces time delays to produce samples en-route prior to receiving the purchase order and then further reducing delays from purchase order to delivery; (4) *Payment Terms*, which effectively uses post shipment trade finance tools that reduce risk of non-payment; and (5) *Legal and Social Compliance*, which requires that the select Kyrgyz firms become formal, legally registered companies and are compliant with social and labor rules according to the Brussels-based Foreign Trade Association's Business Social Compliance Initiative's (BSCI) code of conduct. Mr. Mikkelsen has collaborated with BGI to help the select firms prepare to meet the criteria outlined above. A few of the companies have already completed the samples and cost calculations for international retailers and are working to complete the marketing package to be brought to market in the first quarter of 2016. Mr. Mikkelsen will continue to work with selected apparel companies throughout the quarter.

**Jyrgalan Ski Fest.** BGI launched its first promotion campaign for one of its destination management organizations (DMOs). The Jyrgalan Ski Fest was held on November 21-22 to promote the venue to free-ride skiers and to engage the local community in pursuing tourism as a community economic development plan. To reach extreme skiers, the destination team invited professional travel- and ski-bloggers, photographers, sports associations and tour agencies from Russia, Kazakhstan and Kyrgyzstan to promote Jyrgalan to its niche enthusiasts. So far, Jyrgalan has been featured in eight travel and ski blogs in Russia and Central Asia and on two English-language sites, including Lonely Planet online, the world's largest travel publisher. The Jyrgalan Fest appeared on Kyrgyzstan's KTRK morning and evening newscasts, while it aired twice on the NTS regional channel's Tan-Shoola program. NTS also shot a 30-minute segment for its Dnevnik Kochevnika (nomad's travel journal) program. A participating Kazakh blogger posted his footage on YouTube. The project also provided training to bloggers on how to effectively utilize social media marketing and to members of the Jyrgalan community on handicrafts, catering and guest house accommodations.

**Finalization of Strategy for Construction Materials Value Chain.** In August 2015, BGI's subcontractor submitted the final study on the Construction Materials Value Chain. In the fourth quarter of 2015, the BGI team conducted a number of meetings and workshops with experts and representatives of construction materials firms and business associations in order to prioritize the recommendations presented by the study. Based on these meetings, BGI determined that one set of value chain activities will focus on development of the Stone Producers Association for companies that are engaged in the production, processing, and marketing and sales specifically of decorative stone. BGI will assist the association in conducting marketing and sales campaigns to build new markets. This is necessary to diversify its current Kazakh client base and to pursue the massive construction projects of Qatar, UAE

and Saudi Arabia, who are large consumers of decorative stone. BGI will also assist producers, processors, and sellers of basic construction materials – bricks, concrete, cement, limestone, and gypsum – by strengthening the capabilities of existing associations representing their members, particularly the Association of Young Entrepreneurs (JIA). BGI will present the findings of the value chain study and introduce its sector development strategy in a public meeting scheduled for February 2016. Following this meeting, BGI will initiate plans to pursue new markets in the Gulf States while helping the stone producers establish its association.

**JashtarCamp 2015.** On November 14-15, JashtarCamp conducted its seventh annual forum dedicated to providing inspiration for youth economic and civic participation. Each year, young leaders mobilize more than 50 volunteers to help with logistics and raise funding from national and international donors. This year, more than 3,700 young people, aged 18-28, participated in the event that took place across seven cities in the country. Among other donors, BGI provided support for events in Bishkek and two cities that are host to our tourism destination management organizations (DMOs). Jointly with DMO members, BGI sponsored excursions to tourism attractions around Bishkek, Osh and Karakol to introduce young people to entrepreneurial opportunities in becoming tour guides. BGI also supported the participation of prominent professionals who shared their experiences on how to start and achieve sustainable businesses in tourism. BGI provided t-shirts extolling “10 Reasons to Explore Kyrgyzstan” and other prizes for battle-flash mobs and intellectual quizzes. USAID Mission Director Michael Greene greeted participants and presented ‘Choice of the Year’ awards to winners of several of the nine categories for youth distinction in leadership and outstanding achievements in entrepreneurship, politics, science, and social activism.

**Kyrgyz Handicrafts Exhibition for visiting US Secretary of State John Kerry.** BGI organized an exhibit to display the work of eight local women entrepreneurs who create traditional Kyrgyz apparel, handicrafts, and artisanal foods for visiting US Secretary of State, John Kerry. At the exhibit, Mr. Kerry purchased two dolls for his granddaughters from Kyrgyz entrepreneur Aida Maitasheva, and two jars of a jam from Guljamal Namazova. He admired the artistry of Kyrgyz shyrdaks, kalpaks, tush kiyiz, and other national handicrafts. Prior to the exhibition, Secretary Kerry dedicated the new chancery of the US Embassy, with the participation of the Kyrgyz Minister of Foreign Affairs, Mr. Erlan Abdyldaev, and the US Ambassador to the Kyrgyz Republic, Ms. Sheila Gwaltney. As part of Secretary Kerry’s visit to Kyrgyzstan, he also participated in the opening of the new campus of the American University of Central Asia (AUCA).

## 2. Challenges and Risks to Project Implementation

As previously communicated, by far the largest challenge and risk that BGI faces right now relates to the future of USAID programming relative to the Government of the Kyrgyz Republic’s unilateral termination of the 1993 bilateral agreement with the United States Government. As USAID is well aware, this places all future USAID programming at risk, including the delivery of the BGI Project. BGI is awaiting USAID’s resolution of this diplomatic issue. In the meantime, BGI has focused primarily on delivering assistance under our value chain development activities and has generally found ways to avoid payment of VAT in pursuing these activities.

## 3. Textile/Apparel Value Chain

### BGI’s Activities in Q4 2015

#### Improve Firm Level Performance of Front Runner Companies.

##### *BGI Second Year Work Plan, Apparel, Activity 1.1*

On July 31, BGI selected seven (7) Kyrgyz apparel firms who will receive customized, one-on-one coaching, consulting, and other assistance to address competitive challenges. Since then, BGI and a team of international and local consultants have been working with these front-runner firms to develop customized business strategies and work plans to guide company development activities over the coming year. The selected front-runner companies are Zorin, Lila Style, Fedor Panin, R & I, Olga Classic Style,

Nazik, and Dilbar. In addition, BGI also selected 15 leader apparel companies including the following firms for assistance: Larissa, Bermet, E-Line Moda, Aktis, City B, Barkhat, Ardamina, Credo, Inesse, Mona Liza, Azia, Shek, Nissi, Modniki, and Svetlanka. For these leader companies, BGI intended to develop more limited, yet intensive, capacity development assistance in various aspects of operational and strategic management.

Since August 2015, BGI has been working closely with six of the seven front-runner apparel companies to provide individual support from international experts on production and marketing and sales. It has been BGI's experience, however, that the threshold between firms designated 'front runners' and those designated 'leaders' is more fluid than anticipated. Several leaders have since proven that they are more motivated to change than previously determined, while several front runners have become side-tracked or their needs have generally not fit the assistance and development model that would provide breakthroughs for the entire sector. For example, Dilbar, produces high-end, branded gowns and accessories with an ethnic Kyrgyz element, while several knitwear firms, while still important to BGI's assistance strategy, have a unique set of needs. It has also become clear that various firms will receive different intensity levels of support throughout the year, depending on the ultimate needs of identified buyers.

Overall, the focus of BGI's current support has been to enhance the firms' internal management capacities to address challenges presented by pursuing a market strategy targeted to both Russian and European retail clothing brands. BGI is providing this consulting advice by engaging two international consultants –Mike Mikkelsen (marketing/sales) and Paul Collier (production).

### ***Marketing and Sales***

Mr. Mikkelsen is an entrepreneur and a sourcing and marketing expert with more than 20 years of experience in the apparel industry, both as a manufacturer and as a buyer of apparel products. He worked as commercial development and sourcing director for leading international brands, such as New Look, Gant, Mr. Price and Modis. Mr. Mikkelsen is very knowledgeable about competition in the global apparel industry and the buying requirements and standards of international brands.

Beginning in the fourth quarter of 2015, Mr. Mikkelsen has developed an innovative marketing and sales approach for a select group of front runner and leader firms to attract the attention and interest of international buyers. This approach integrates the following aspects:

- ***Attraction***, which relates to how to identify the right buyers/customers and select samples to re-engineer that will attract the attention of a buyer;
- ***Best Price***, which requires understanding customers' target retail prices and profit margin requirements so that Kyrgyz producers can then calculate costs and sales prices that meets the buyer's pricing requirements.
- ***Speed to Consumer***, which reduces time delays to produce samples en-route prior to receiving the purchase order and then further reducing delays from purchase order to delivery;
- ***Payment Terms***, which effectively uses post shipment trade finance tools that reduce risk of non-payment;
- ***Legal and Social Compliance***, which are very important to international brands and retailers. The approach requires that the select Kyrgyz firms become formal, legally registered companies and are compliant with social and labor rules according to the Brussels-based Foreign Trade Association's Business Social Compliance Initiative's (BSCI) code of conduct that ensures that no child labor, slave labor, or trafficked persons are working in Kyrgyz apparel factories.

Mr. Mikkelsen has collaborated with BGI to help the select firms prepare to meet the criteria outlined above. A few of the companies have already completed the samples and cost calculations for international retailers and are working to complete the marketing package to be brought to market in the first quarter of 2016.

## Production

Mr. Collyer is a production expert with more than 40 years of experience in the apparel industry as an industrial production manager, consultant and trainer, with industry experience in running medium and large factories and making garments for well-known international brands, such as Marks & Spencer. He has provided consulting services to many apparel manufacturers in different regions of the world as EU, North America, Middle East and Asia.

Mr. Collyer has been providing customized assistance to achieve higher productivity at BGI's front-runner firms by improving the following:

- Methods improvement and workplace design
- Process optimization: plant/factor layout, flow lines, line balancing
- Production planning, scheduling and costing
- Standard development
- Operator cross-training
- Quality assurance/control: raw materials inspections, in-process inspection, final inspection
- Standards development

With specific firms, he has been working in the following areas:

| Value Chains              |                                                                                                                                                                                                                                                                                                                                                             |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Zorin</b>              | <ul style="list-style-type: none"> <li>• Trouser work station layout</li> <li>• Trouser production methods</li> <li>• Balance and labor cost sheets operations to achieve daily output of 450 trousers</li> <li>• Low performer improvement techniques for bottleneck operations</li> </ul>                                                                 |
| <b>Panin</b>              | <ul style="list-style-type: none"> <li>• Cycle timing and reporting systems</li> <li>• Front pre-make and trouser sections</li> <li>• Balancing and planning lines using operation information supplied</li> </ul>                                                                                                                                          |
| <b>Olga Classic Style</b> | <ul style="list-style-type: none"> <li>• Increase workforce and productivity levels</li> <li>• Flow lines for balancing and operation lists for enlarged brigades with manning and output</li> <li>• Labor reporting systems</li> <li>• Technologists understanding of low performer improvement techniques</li> <li>• Improve recruit training.</li> </ul> |
| <b>Nazik</b>              | <ul style="list-style-type: none"> <li>• Move from individual work to a full flow line using "stealth" approach.</li> <li>• Pre-assembly area for making simple components (collars)</li> <li>• Garment construction</li> <li>• Machine/factory layout.</li> <li>• Daily and summarized weekly output from each operator</li> </ul>                         |

Mr. Collyer has also been working with Zorin Company, a producer of men's suits, to finalize a grant application for the purchase of a fully automated laser cutting system that is used for high volume production of men's suit jackets and trousers. Zorin Company, a front runner firm, has been working with BGI to introduce productivity improvements that are expected to allow the company to increase daily production of suits by 25%. Through BGI assistance, Zorin has already implemented productivity improvements that have produced some gains in daily production and are on track to deliver against the specifics production targets. BGI and Zorin have agreed to a joint 50-50 cash contribution to purchase the equipment, which will allow the company to realize savings in fabric consumption, better quality production by cutting to exact tolerances, and increased productivity in the cutting room which is using manual cutting tools. Following the completion of an environmental and safety review, BGI will finalize the grant application.

## Innovation Club Meetings

### *BGI Second Year Work Plan, Apparel, Activity 1.2*

Both front-runner firms and those not selected for individual development assistance this year will participate in BGI's apparel sector *Innovation Club*, a monthly networking and knowledge-sharing platform where Kyrgyz apparel companies can exchange ideas, share approaches and learn about leading

business, sales and production practices from international and local experts and selected front-runner firms.

The inaugural meeting of the *Innovation Club* took place on August 20 with the participation of 15 leading apparel manufacturers. Since then, BGI has conducted three meetings, which have highlighted the recommendations of international and Kyrgyz experts to improve marketing, production, strategic planning, corporate governance, and quality standards to participating firms.

At one meeting, Mr. Paul Collyer presented the benefits of the brigade and flow-line production methodologies, while at another, Mr. Mikkelborg outlined the specific buying requirements of international brands. Mr. Aleksei Lavrienko, Director of the Center of Training and Consulting, and Mr. Maksim Smirnov, Partner at Kalikova & Associates, highlighted the importance of adopting a corporate vision and the urgency of formal LLC registration as a prerequisite for supplying international retailers.

One Innovation Club meeting was devoted to discussion of the required trade standards of the Eurasian Economic Union (EAEU). As a result of this meeting, four participating companies obtained EAEU certificates of conformity, which enables apparel goods to be exported and traded freely within the EAEU. As a result of presentations on the certification procedures by the Bishkek-based Center for Export Promotion, CertConsult, and Sercons, a certification consulting firm in Moscow, four Innovation Club members – Aktis, Zorin, Larissa Fashions, and Lila Style – applied for and received certificates of conformity.

Overall, the objective of Innovation Club meetings is to inspire and embolden apparel companies to become more competitive in local and foreign markets employing peer pressure by competitors as an incentive to adopt new systems and practices. As a result, companies have begun to make the necessary changes to their business systems and processes. In the future, BGI plans to widen club participation to other firms as current members demonstrate their successes and others recognize the benefits of membership. The long-term goal of the Innovation Club is for the entire sector to benefit from the experiences of peers in finding new markets and distribution channels for their products.

## **Development of a Corporate Formalization Strategy for the Apparel Sector**

### ***BGI Second Year Work Plan, Apparel, Activity 1.5***

To better understand policy constraints and opportunities, BGI selected a local legal and tax advisor to study the tax policy environment and develop proposals to present to the Government to enable firms to transition away from the existing tax patent regime. A new tax regime would enable apparel companies to conclude sales contracts with brands and large customers in Russia, Kazakhstan and other countries.

During the fourth quarter, the legal/tax advisor submitted a strategy that included the following three dimensions: (1) maps transactions under the current patent system; (2) evaluates the tax and legal strategies for helping firms transition from formal status as an individual entrepreneur under the tax patent system to registering as a limited liability company; and (3) provides company-specific support for one front-runner apparel firm that is now in the process of registering as a limited liability company. The advisor has worked directly with four front-runner companies to understand and map transactions flows that occur under the patent system and is analyzing the legal basis for these transactions. The mapping exercise has confirmed that apparel companies are unable to provide adequate records that document costs as the firms rely on vague estimates rather than the use of actual financial and managerial accounting techniques and tools.

The study analyzed six different tax regimes: (1) common/general taxation regime; (2) special tax regime; (3) mandatory patent regime; (4) voluntary patent regime; (5) tax contract regime; and (6) free economic zone tax regime. The study concluded that the best tax regime for the formalization of Kyrgyz apparel firms would be a modified version of the common/general taxation regime that would allow a grace period for apparel firms to pay the necessary array of taxes including profit tax, social contribution, income tax, and VAT. For example, payment of the 10% profit tax would be phased in over a period of ten years as follows: 0-5 years – no tax; 5-10 years – 5%; >10 years – 10%. A similar grace period could



be applied to payment of the social contribution of 27.25% as apparel firms are currently paying only 1%. These grace periods would allow Kyrgyz companies a period of transition that would allow for growth by enabling them to meet the wholesale price points of reputable international apparel retailers and brands. At the same time, the grace period would allow firms to build capacity by implementing modern financial and accounting systems and systematizing other management improvements.

BGI's plan for obtaining government approval for the proposed transition plan by working through BGI's Tax Program Manager, who is a member of several intergovernmental working groups on tax policy. During the first quarter of 2016, the BGI team will provide relevant production, sales, and tax data on apparel companies and assist the working group to undertake an analysis of the impact of specific proposals on the Kyrgyz national budget. Once this is completed, the working group will determine whether it supports the proposed transition plan and present the plan to Government authorities, demonstrating that it will bring greater tax revenue to the Government. Implementing the plan will require amendments to the Tax Code, which BGI will draft following approval of the plan. When enacted, BGI will help firms to make the transition to corporate registration and the appropriate tax regime, provide assistance to those firms to improve their financial and managerial accounting and tax compliance capacities, that

## New BGI Initiatives Planned for Q1 2016

### Launch of Innovation Centers in Bishkek and Osh

#### *BGI Second Year Work Plan, Apparel, Activity 1.4*

While BGI's front runner and leader apparel makers have the potential to supply European and Russian retailers, most of Kyrgyzstan's estimated 1,600 firms are small workshops with limited abilities to achieve the economies of scale and the degree of formalization required to serve international retail chains. Yet collectively, these workshops employ tens of thousands of workers, perhaps more, and are vital to maintaining Kyrgyzstan's economic and political stability. With Russian recession and the contraction of bazaar markets, they also need to improve their ability to compete with low-cost competitors, but their numbers and informality pose a serious challenge to BGI's providing adequate firm-level assistance. Further, much of their poor productivity results from inefficient and manual processes that can be addressed by access to modern equipment through shared, outsourcing services.

To help small firms continue to compete in traditional bazaar markets, BGI formed a strategy to provide collective assistance to these firms and found an efficient way to reach them – at their point of production within former Soviet factories housing multiple workshops. Following a request for applications for creating apparel *innovation centers* in these factories to supply outsourced services to small apparel workshops, BGI selected two companies – TeDIS, located in the *First of May* factor in Bishkek and Dastan Style LLC, in the centrally located *Dom Bita* in Osh – as recipients of assistance to establish innovation centers. BGI will provide seed capital to these firms through its newly launched grants program.

During the fourth quarter, BGI began working with TeDIS and Dastan to develop their grant applications. The grant application for TeDIS involves purchases of embroidery and small-scale cutting equipment, which will enable it to provide affordable and reliable cutting and embroidery services to at least 55 companies in the factory complex. The grant application for Dastan Style involves a purchase of pattern-making and CAD/CAM system that will improve design and, in turn, will lead to the production of higher quality products. Since BGI will not fund the full cost of equipment, both firms confirmed sufficient demand to cover service delivery costs and desired return on investment, thereby ensuring the sustainability of these business initiatives. TeDIS and Dastan Style are contributing 20% as part of their respective grant applications. Along with these services, the innovation centers will provide the small workshops with technical assistance and training. BGI expects to award these grants and procure the required equipment in the first quarter of 2016.

## **Marketing and Sales Efforts to New Buyers**

### *BGI Second Year Work Plan, Apparel, Activity 1.1*

BGI and Mike Mikkelsen will finalize marketing and sales approaches developed with at least ten front runner and leader companies. Accurate and complete sample and cost calculations will be required from the companies in order to be presented to leading retailers in Europe. BGI will provide assistance to these companies in order to prepare the samples and pricing/cost data that are part of the marketing and sales package. In parallel with that activity, BGI will work with the companies to help them register as LLC entities and take the necessary steps to become BSCI-compliant, which are required by European brands and retailers. Beginning in 2016, the overall marketing/sales approach involves three components: (1) Direct to Retail; (2) Direct to Brand; and (3) Blue Chip Retailers.

BGI will hire Mike Mikkelsen to provide direction in addressing the marketing and sales issues in apparel sector to accomplish the following objectives:

1. To help Kyrgyz apparel front runner and leader companies develop the marketing/sales and product development skills necessary to sell to EU and/or US buyers, which includes the elements of attraction best price, speed to customer, payment terms, and compliance;
2. To improve the cost competitiveness of Kyrgyz apparel front runner and leader companies through the optimization of strategic sourcing initiatives of inputs;
3. To help Kyrgyz apparel front runner and leader companies establish communications with EU and/or US buyers and, ultimately, secure purchase orders;
4. To help create and implement a Kyrgyzstan country apparel marketing and investment strategy that will be designed and implemented in partnership with the Kyrgyz private sector; and
5. To implement a systemic company-wide HR capacity development approach.

BGI is also developing a plan for creating an independent Kyrgyz-based marketing and sales platform, which will represent the interests of Kyrgyz apparel producers to strong international retailers and brands and provide direction to Kyrgyz apparel firms to meet brand requirements. This concept, which is now only in the planning phase, will be supported by BGI with membership fees from participating and pre-qualified companies that wish to participate in this initiative.

## **Finding Alternative Sources of Input Supply**

### *BGI Second Year Work Plan, Apparel, Activity 1.1*

BGI has introduced Kyrgyz apparel companies to the advantages of finding better sources of input supply in China. Several companies have realized cost savings through this initiative, but they can capture more savings by sourcing directly from input producers rather than from middlemen. BGI will work with recognized and accredited input producers who already produce large quantities of inputs for the large international brands and retailers. With assistance from international consultants, BGI will establish contact with these producers who are already manufacturing large production runs of popular fabric types that are in high demand by the retailers and brands. This approach will help Kyrgyz companies get the same low prices that the retailers' factories are paying without having to pay higher prices for fabrics that are produced in smaller quantities.

## **4. Tourism Value Chain**

### **BGI's Activities in Q4 2015**

#### **Implementation of Destination Management Organization (DMO) Plans for the Four Selected Destinations**

##### *BGI Second Year Work Plan, Tourism, Activity 2.1*

In the fourth quarter, BGI began to implement priority activities for the four selected destinations. Improving basic infrastructure and signage has emerged as a priority for all the destinations based on submitted strategies and plans. All of the DMOs are seeking to attract larger numbers of tourists to their

destinations through improvements in basic infrastructure, signage, and guesthouses which will enhance the quality of the tourist experience.

As a first step, BGI retained the services of Kyrgyz construction engineers in order to understand the permitting process for repairs/renovations in the destinations. Generally, permitting requirements include license applications, detailed plan drawings, detailed specifications of materials, approved documents from state environment protection agencies, letter of approval from Ministry of Culture for repairs and renovations of the Burana museum, and work plans. Construction engineers have prepared specifications and cost estimates for the repairs and renovations in Burana, Jyrgalan, Karakol, and Osh. In addition, BGI engaged the services of ecologists to assess environmental requirements as specified under both Kyrgyz law and the USAID environmental checklists. These have been completed for Jyrgalan and Karakol DMOs, and the Osh and Barana checklists will be completed early in the first quarter of 2016.

Lack of signage is another key constraint to basic infrastructure that was identified across all four destinations. BGI has concluded that the installation of distance and directional signage is a vital cross-cutting activity that benefits all of the selected destinations, which will increase the visibility of the tourist attractions of the destinations and build greater awareness of the tourist attractions at the destinations with domestic and international visitors. Overall, BGI believes that the signage will help attract more visitors to the landmark sites of the destinations by making them easier to find and, thus, more enjoyable. BGI has submitted a statement of work and budget for procurement and installation of signage for all destinations. Since USAID is planning to support repairs of the Uzgen mausoleum, BGI had included signage for this tourist attraction in its overall plan. Permits are required for installation of signage and that includes approved letters of application submitted by contractors to local authorities, local architectural offices, and the departments of traffic and environmental services. BGI will issue a competitive tender for the procurement of the signage in the first quarter of 2016.

In the next quarter, BGI will also engage a short-term international consultant specifically to refine, consolidate and further prioritize activities for the DMOs. Priority activities will include but are not limited to seeking permits from the required authorities for signage and for repairs, renovations, and landscaping in private and public areas for all of the destinations. Following this, BGI will issue competitive tenders for local procurement of renovations and repairs. All destinations will receive capacity development in priority gap areas such as financial management and accounting, hotel management, museum management, and others. Other priority activities involve purchases of necessary safety equipment for winter tourism at Jyrgalan, transport equipment and supplies for Osh, supplies and equipment for events in Burana, and beginning landscaping and the beautification of public spaces in Karakol. BGI will also initiate promotional activities such as website development, social media marketing, and local community outreach for all destinations, and develop an action plan targeted to women and youth to strengthen their economic participation in tourism activities. As described below, Jyrgalan was the first DMO to receive initial promotion support to launch the opening of its ski season.

### **Jyrgalan Ski Fest**

#### ***BGI Second Year Work Plan, Tourism, Activities 2.1, 2.2, 2.3***

With the coming of ski season, BGI supported the launch of the Jyrgalan Ski Fest on November 21-22 to promote the venue to free-ride skiers and to engage the local community in pursuing tourism as a community economic development plan.

To reach extreme skiers, the destination team invited professional travel- and ski-bloggers, photographers, sports associations and tour agencies from Russia, Kazakhstan and Kyrgyzstan to promote Jyrgalan to its niche enthusiasts. On the first day of the festival, Russian ski blogger, Svetlana Khlebnikova, taught Kyrgyz journalists and sports advocates the basics of blogging and trained participants on how to effectively utilize social media tools. The Kyrgyz Mountain Guides Association delivered avalanche safety training to young guides, local youth and staff of the Ministry of Emergency Situations.

The second day of the festival engaged the entire community and visitors from Karakol and nearby villages. Emil Ibakov, head of the Jyrgalan DMO, and Talgat Mukalaev, the progressive head of the aiyl okmatu, hosted an event in which residents entertained with traditional songs and dances to guests that included Issyk-Kul Governor Emilbek Kaptagaev and Karakol Mayor Ryskul Kalygulov. In Mr. Kaptagaev's address, he emphasized tourism's ability to create jobs and noted that the Kyrgyz Government included Jyrgalan as one of five ski tourism development clusters.

Residents and guests also participated in sports contests, a photo contest, and an exhibition of handicrafts. Hospitality yurts offered ethnic foodstuffs made by the local community. To prepare for the festival, BGI had previously offered classes in handicraft production and food preparation for local women and youth to demonstrate opportunities that tourism can spawn for the community's economy. The influx of festival goers overwhelmed the accommodations of Mr. Ibakov's guest house, so willing residents received hospitality training for renting rooms in their homes to the festival's visitors.

So far, Jyrgalan has been featured in eight travel and ski blogs in Russia and Central Asia and on two English-language sites, including Lonely Planet online, the world's largest travel publisher. The Jyrgalan Fest appeared on Kyrgyzstan's KTRK morning and evening newscasts, while it aired twice on the NTS regional channel's Tan-Shoola program. NTS also shot a 30-minute segment for its Dnevniki Kochevnika (nomad's travel journal) program. A participating Kazakh blogger posted his footage on YouTube.

At the same time, Karakol artisan Ms. Damira Abdybekova, who provided training in handicrafts to the local community, has since contracted piecework from eight Jyrgalan women, thus inaugurating them to the craft production chain.

### **Completion of Market Research of the Turkish Outbound Tourism Market**

#### ***BGI Second Year Work Plan, Tourism, Activity 2.5***

Kyrgyzstan has long attracted tourists from Russia and Kazakhstan to its Issyk-Kul beaches, ski resorts and alpine peaks. But the current regional economic crisis demonstrates the risk of over-reliance on CIS tourists and the need to diversify to attract tourists from other markets. At the same time, Kyrgyzstan has overlooked opportunities to build on its rich cultural heritage and expand tourism offerings targeted to the lucrative cultural tourism segment.

Consequently, Turkey's cultural, historical and religious ties to Central Asia inspired BGI to undertake a study of Turkish outbound tourism to determine whether this shared heritage, the prevalence of Turkish investors and students, the accessibility of direct flights from Istanbul, and a burgeoning Turkish middle class would constitute a viable target for expanding Kyrgyz cultural offerings.

BGI selected Egemendik, a Kyrgyz association with ties to Turkey, to conduct desk research and assist with primary research of tour operators and other stakeholders in Turkey. The goal of both primary and secondary research was to identify the specific demographics, preferences, and experiences sought by Turkish travelers, develop tourism products appealing to targeted segments, and execute a promotion strategy to increase Turkish visitors to Kyrgyzstan.

In the study, BGI found that the number of Turks traveling overseas for business and leisure exceeded 8 million people in 2014 and has grown 84% since 2005. Low cost and close proximity to Turkey attract the most first-time tourists. Yet, there is a growing number of approximately 300,000 tourists who are exploring higher-cost and more distant destinations around the world. Turkish tour operators have voiced increasing interest in securing contracts from service providers in more far-flung markets.

Although 70% of the 37,000 Turks who came to Kyrgyzstan last year did so for work or education, in online surveys BGI discovered a growing attraction for tours that explore the roots of Turkic identity in Central Asia. The Burana Tower, the Tomb of Al Sarahi, and the Saimalun Tash petroglyphs pique the interest of Turks seeking to connect to their medieval past. Yurt stays, nomadic games, and Kyrgyz

cuisine and music significantly enhance the experience, the study showed. The hit Turkish television series, *Direlis*, which charts the rise of the Ottoman Turks, reflects this growing appeal.

The study confirms that Turks want to know more about Kyrgyzstan but cites the lack of detailed information about cultural, historic, and nature-based attractions. BGI will develop a promotion campaign, initially to highlight cultural attractions for business travelers. At the same time, BGI will partner with journalists, tour operators, and associations in both countries and use online tools to promote Kyrgyz attractions to a wider audience in Turkey. BGI will present the results of the study and unveil this promotion campaign in the first quarter of 2016.

## **Participation in International Tourism Fairs**

### ***BGI Second Year Work Plan, Tourism, Activity 2.8***

There are two major international tourism trade exhibitions conducted each year – the World Tourism Market (WTM) London and the International Tourism Berlin (ITB). BGI will partially support the participation four members of the Kyrgyzstan Association of Tour Operators (KATO) at the World Travel Market (WTM), a London tradeshow which will be held from November 2-5. The participation of two BGI staff will be to better understand how KATO members conduct their tourism business, including how they generate and handle business leads and opportunities. BGI will work with the participants to improve the existing KATO exhibit space and increase the number of leads and meetings that will be arranged during scheduled networking events at WTM. BGI's observations and results from the WTM event will shape how the project may support future tourism tradeshows.

Silk Road tourism is on the rise as tourists increasingly seek exotic experiences and obscure destinations. At the same time, a recent article in the British press noted an increase in interest in Kyrgyz mountaineering as peaks in Nepal and the Alps become “over-commercialized and expensive.”

To capitalize on these global trends, BGI helped sponsor the participation of members of the Kyrgyz Association of Tour Operators (KATO) in the World Travel Market (WTM) Expo in November in London. Five Kyrgyz tour operators – NoviNomad, Edelweiss, Tian-Shan Travel, Ak-Sai Travel and CATS – participated in the exhibition to showcase their services and promote Kyrgyzstan as an alluring tourist destination.

WTM is a leading tourism exposition that gathers 50,000 industry professionals from around the world and generates around US \$4 billion in annual tourism revenue.

Kyrgyz tour operators conducted more than 80 meetings with potential customers during highly effective speed networking sessions and meetings at the Kyrgyzstan booth. The speed networking session featured 116 buyers from around the world, 30 of which were interested in selling tours to Central Asia. Meetings resulted in nine tangible contracts between Kyrgyz tour operators and international tourist agencies from the UK, Portugal, the US and others. BGI will monitor the number of actual tourists KATO members report as a result of participating in the exhibition.

KATO representatives and the BGI tourism team also attended a number of information sessions and gained fresh insights into trends in destination marketing, responsible tourism, best branding practices, and Silk Road marketing. The group established a range of contacts in the international blogger sphere, as well as top travel magazines, including National Geographic.

BGI will continue to support KATO and Kyrgyz tour operators at major tourism shows since they provide a global showcase for promotion of Kyrgyzstan and generate market intelligence and near-term results for Kyrgyz tour operators. In March, BGI will assist KATO in promoting Kyrgyzstan as a tourist destination at the ITB exhibition in Berlin, another leading exhibition for the tourism industry.

## **Improving the Collection of Tourism Statistics**

### *BGI Second Year Work Plan, Tourism, Activity 2.4*

The collection of accurate tourism statistics has been a challenge for the Kyrgyz Government partially due to the absence of a tourism data collection methodology that meets international standards. Consequently, a component of BGI's support for the development of the tourism value chain was to improve the ability of Government institutions to collect and report statistics on both international and domestic tourism. In April 2015, BGI mobilized international advisor, Vladimir Markhonko, to introduce and implement international/UNWTO best practices/recommendations for the collection and reporting of tourism statistics. Mr. Markhonko subsequently submitted a diagnostic of current practices and made recommendations to the National Statistics Committee (NSC) of the Kyrgyz Republic to improve the collection of tourism statistics.

Over the coming year, BGI had planned to hire Mr. Markhonko to assist the NSC in implementing many of the study's priority recommendations to establish the foundation for improving the accuracy of collected data and strengthen communication among key agencies and their mechanisms for information exchange. The project intended to introduce internationally recommended standards for the collection and reporting of tourism statistics and help implement methodologies for gathering demand-side data to improve their use in business and strategic decision making.

*Prior to launching the implementation phase of this project however, USAID requested that BGI suspend this activity following the cancellation of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20. It will resume when USAID lifts the suspension*

## **5. Construction Materials Value Chain**

### **BGI's Activities in Q4 2015**

#### **Completion of Development Strategy for Construction Materials**

##### *BGI Second Year Work Plan, Construction Materials, Activity 3.1*

In the first quarter of 2015, BGI selected the International Business Council (IBC) and the Association of Young Entrepreneurs (JIA) conduct a comprehensive value chain study of the construction materials sector with international consultants from Deloitte's subcontractor, SSG Advisors. In August 2015, the research team submitted to BGI the Final Report with findings, conclusions and recommendation, which formed the basis of BGI's strategy for assistance to the sector.

The study found that the construction sector plays an important part in the economy, contributing 5% to Kyrgyzstan's GDP and employing roughly 250,000 workers. Until 2015, remittances from workers abroad fed a building boom, which helped generate demand for the 1.7 million tons of construction materials produced in Kyrgyzstan annually. But Russia's economic crisis and currency depreciation have shrunk remittances and construction spending. Manufacturers of construction materials have reported a plunge in sales of 50-60% compared with a year ago.

The construction materials sector has received little attention as a focus for development. It lacks a voice to advocate for important issues such as technical product standards, urban planning, and permitting, all which are important to drive the production and marketing of safe, high quality and innovative construction materials. Likewise, there are no concerted initiatives to stem the threat to survival of many producers and processors in the sector. BGI has begun working directly with producers and processors in two critical product areas: decorative stone and basic materials.

Subsequently, the BGI team conducted a number of meetings and workshops with experts and representatives of construction materials firms and business associations in order to narrow down and prioritize the recommendations presented by the research team. These meetings and workshops helped BGI to better understand existing challenges, concerns and expectations of construction materials stakeholders, particularly as a result of the worsening economic crisis.



On November 5, BGI team conducted a meeting with representatives of construction materials manufacturing companies, during which BGI discussed with stakeholders the low level of public-private dialogue, advocacy, and information related to entering the EAEU available to stakeholders. The companies suggested creating an Association of Traders and Manufacturers of Construction Materials, which would promote the interests of the companies, develop recommendations and draft legislation to improve the investment climate. Creating an association will help them consolidate their advocacy position, formulate and implement activities for improving the business environment, communicate with government, and provide needed business support services, such as marketing and sales.

On November 25, the BGI construction materials value chain team travelled to Jalalabad oblast to meet with representatives of stonecutter companies. BGI explained the project's activities and purpose and presented findings from the Construction Materials Value Chain Study. The stonecutter companies expressed their interest in creating an association specifically to serve this sub-segment and their willingness to pay dues and hire permanent association management.

Based on these meetings, BGI determined that one set of value chain activities will focus on the development of the Stone Producers Association for companies that are engaged in the production, processing, and marketing and sales specifically of decorative stone. There are at least 60 producers and processors of travertine, marble, and granite mined in southern Kyrgyzstan. Kyrgyz travertine, particularly, is a high-quality product with unique properties, such as excellent resistance to temperature, superior durability, wide assortment of colors and textures, and short production/processing times. Kyrgyz-made travertine is sold mostly to Kazakhstan, but regional currency crises demonstrate the vulnerability of the sector to the lack of market diversification.

The Stone Producers Association will conduct marketing and sales campaigns to build new markets. The massive construction projects of Qatar, UAE and Saudi Arabia are large consumers of decorative stone and represent an untapped market for Kyrgyz stone producers. Through advocacy support, BGI will also help stimulate demand in local construction markets, which are also unsaturated for domestic producers. Subsequent activities will support development of technical product standards and other important initiatives to improve product quality and penetration of new markets.

BGI will also assist producers, processors, and sellers of basic construction materials – bricks, concrete, cement, limestone, and gypsum – by strengthening the capabilities of existing associations representing their members. Although these producers represent more than 500 companies with extremely diverse range of products and types of firms, each with highly fragmented supply chains, interests and challenges, the Association of Young Entrepreneurs (JIA) has already formed a sub-committee composed of construction materials firms. BGI will augment JIA's membership service capabilities by focusing on marketing and sales, training and advocacy at the association level.

BGI present the findings of the value chain study and introduce its sector development strategy in a public meeting scheduled for February 2016 after which it will initiate plans to pursue new markets in the Gulf States while helping the stone producers establish its association.

*Activities involving materials standards as well as standards and permits in the construction process, however, require significant involvement of the Government for which assistance is currently suspended.*

## 6. Gender/Youth

### BGI's Activities in Q4 2015

#### Sponsorship of JashtarCamp 2015

##### *BGI Second Year Work Plan, Tourism, Activity 2.3*

On November 14-15, JashtarCamp conducted its seventh annual forum. Driven by youth for youth, it is one of the largest informal youth conferences in Central Asia. Its key goal is to promote civic engagement among Kyrgyzstan's youth by discussing issues of importance to young people. Begun in 2009, JashtarCamp was initiated by a forerunner of the Institute for Youth Development and coincides

annually with National Youth Day. Each year, young leaders mobilize more than 50 volunteers to help with logistics and raise funding from national and international donors. This year, more than 4,000 young people, aged 18-28, participated in the event that took place across seven cities in the country.

USAID Mission Director Michael Greene greeted participants and presented ‘Choice of the Year’ awards to winners of several of the nine categories for youth distinction in leadership and outstanding achievements in entrepreneurship, politics, science, and social activism.

More than 100 speakers and young entrepreneurs made motivational speeches and shared inspirational stories of hard work and perseverance. Youth and national leaders met with Roza Otunbaeva, former President of Kyrgyzstan and head of the international foundation, Sadyk Sher-Niyaz, and Dastan Bekeshov, a Member of Parliament dedicated to promoting youth engagement. Members of a famous Kyrgyz music group ‘Gorod-312’ (Bishkek’s telephone area code) also shared experiences in achieving widespread recognition in Moscow and abroad.

Among other donors, BGI provided support for events in Bishkek and two cities that are host to our tourism destination management organizations (DMOs). Jointly with DMO members, BGI sponsored excursions to tourism attractions around Bishkek, Osh and Karakol to introduce young people to entrepreneurial opportunities in becoming tour guides. Students from tourism faculties in Osh and Bishkek participated in bus tours conducted by Osh DMO members Lada Khasanova and Regina Gataulina, and young professionals in Bishkek. Volunteers from the Tourism Information Center in Karakol, another BGI DMO member, conducted walking tours of tourist attractions.

BGI also supported the participation of prominent professionals who shared their experiences on how to start and achieve sustainable businesses in tourism. BGI provided t-shirts extolling “10 Reasons to Explore Kyrgyzstan” and other prizes for battle-flash mobs and intellectual quizzes. BGI also helped to organize demonstrations of techniques for making handicrafts, including ceramics and the various uses of felt prevalent in Kyrgyz souvenirs, at breaks between lectures and panel discussions.

### **Kyrgyz Artisans Welcome Secretary of State John Kerry with USAID Handicrafts Exhibition**

BGI organized an exhibit to display the work of eight local women entrepreneurs who create traditional Kyrgyz apparel, handicrafts, and artisanal foods for visiting US Secretary of State, John Kerry. At the exhibit, Mr. Kerry purchased two dolls for his granddaughters from Kyrgyz entrepreneur Aida Maitasheva, and two jars of a jam from Guljamal Namazova. He admired the artistry of Kyrgyz shrydaks, kalpaks, tush kiyiz, and other national handicrafts.

Prior to the exhibition, Secretary Kerry dedicated the chancery with the participation of the Kyrgyz Minister of Foreign Affairs, Mr. Erlan Abdyldaev, and the US Ambassador to the Kyrgyz Republic, Ms. Sheila Gwaltney. As part of Secretary Kerry’s visit to Kyrgyzstan, he also participated in the opening of the new campus of the American University of Central Asia (AUCA).

The visit was part of his five-country, Central Asian tour in October to inaugurate a new format for dialogue between the United States and the Central Asian republics known as the *C5+1* at an initial meeting in Samarkand. The exhibit coincided with the grand opening of the new U.S. Embassy in Bishkek.

### **BGI Support to Kurak’s Women Forum**

In the fourth quarter, BGI supported the Kurak Women’s Forum in commemorating the UN Women Entrepreneurship Day on 19 November. BGI provided funds to cover travel costs of 10 women entrepreneurs representing tourism and apparel sectors from regions of Kyrgyzstan to the event held at AUCA in honor of this Day.



## New BGI Initiatives Planned for Q1 2016

### Gender and Youth Inclusion in Tourist Destination Management Organizations

*BGI Second Year Work Plan, Tourism, Activities 2.2, 2.3*

BGI's gender and youth component plans to anchor initial activities within destination management (DM) strategies. Within our destinations, BGI has identified several initial activities targeting gender and youth. Additionally, BGI's gender and youth strategy relies strongly on the implementation of grant proposals. The launch of BGI's grants program in November will generate substantial submission of grant concept papers by its first submission deadline of January 22. BGI will review these concept papers, select those for submission of full grant proposals, and award initial grants focusing on the development of women and youth in the first quarter of 2016.

## 7. Progress of Activities for Strengthening Human Capital

### BGI's Activities in Q4 2015

#### Human Capacity Support to the Tourism Sector

*BGI Second Year Work Plan, Tourism, Activities 2.1, 2.3*

In the fourth quarter of 2015, the Human Capital Development team continued working with Destination Management Organizations (DMOs), education institutions, business associations and private sector organizations to solidify BGI's capacity building activities designated to both the destinations and the tourism sector in general. The work included a field trip to Karakol to meet with DMO representatives, educational institutions, museum representatives and civil society groups and verify activities proposed.

As a result, BGI presented to USAID a strategy to human capital development for the tourism sector, which was subsequently accepted. It is based on four key areas, the implementation of which is expected to improve tourism experiences, enhance capacities of tourism sector players, and strengthen partnerships between educational institutions and firms providing tourism services.

The key areas of human capital development activities are:

1. Improve service delivery and skills in destinations (DMOs and communities);
2. Enrich tourism experiences at cultural and historic attractions through improved skills of museum staff;
3. Strengthen linkages between universities and private sector;
4. Support human capital development in tourism through BGI Grant Program.

BGI will begin implementing these programs in the first quarter of 2016.

#### Human Capacity Support to the Apparel Sector

*BGI Second Year Work Plan, Apparel, Activities 1.1, 1.2, and 1.7*

The BGI Human Capacity Development team also presented a strategy to USAID for implementing formal training to support the apparel sector. Based on internal discussions, meetings with the companies and universities, BGI selected the following three priority areas to strengthen the capacities of the apparel companies and complement to the BGI ongoing apparel value chain activities:

1. Production Management Capacity Development for Leader Companies
2. Improving the Efficiency of Apparel Companies (Front Runners and Leaders) through Strengthened Skills of Sewing Operators
3. Marketing and Sales Management Program for Leader Companies

BGI will begin implementing these programs in the first quarter of 2016.

## **BGI Staff Participation to ISPI EMEA Conference and HICD Workshop organized by USAID GGPAS**

*BGI Second Year Work Plan, Human Capital, Activities 11.1, 11.2*

On October 1-3, BGI staff Tanja Georgievskaya, Kanybek Konokbaev and Nargiza Kudaiberdieva attended the 14<sup>th</sup> Annual Conference of the International Society for Performance Improvement (Europe, Middle East, Africa) titled “Focus on People and Performance: Beyond Training to Organization Results” which took place in Istanbul, Turkey.

The conference gathered participants from 13 countries for a number of useful knowledge-sharing sessions and workshops on performance improvement projects implemented in different countries, and exposed them to such prominent speakers as Dr. Temel Kotil, CEO of Turkish Airlines, senior executives from Kornel Ferry, Enocta and IETT (Istanbul Electricity Tramway and Tunnel General Company) and a useful simulation exercise. As part of the concurrent sessions, BGI presented two topics: “The HICD Decade: Was Human Performance Technology a Game Changer in International Development?” by Tanja Georgievskaya and “Learning Partnership: Embedding Monitoring and Evaluation Systems in Emerging Markets” by Nargiza Kudaiberdieva and Kanybek Konokbaev.

As an outcome of this year’s conference BGI staff conducted a practical workshop during the joint conference organized by USAID GGPAS, Agrohorizon, CGP and BGI Projects. The session titled “Performance Measurement Drives Success” featured USAID’s work in the tourism sector and exposed the workshop participants to a practical assignment consisting of two key tasks: identifying the main areas of focus for organizational assessment and determining key performance indicators for an efficient monitoring and evaluation system in the tourism sector of the Kyrgyz Republic. The participants were introduced to various tools used in the performance improvement practice (the Performance Improvement Model, the Energy Investment Model, EFQM Excellence Model, Common Assessment Framework, relationship/process mapping and other) at both public and private organizations. The session was interactive and gathered around 30 participants representing various fields (business associations, consulting companies, training institutions). The conference was attended by around 70 participants and provided a valuable opportunity for the Kyrgyz delegates attending ISPI EMEA Conference to communicate and share what they had learnt.

## **BGI Staff Participation to GGPAS Local Consultant Capacity Building Program (October 2015-March 2016)**

*BGI Second Year Work Plan, Human Capital, Activity 11.2*

BGI staff Nargiza Kudaiberdieva and Nurgul Toktogulova were selected to participate in the GGPAS Local Consultant Capacity Building Program along with 35 local consultants from consulting companies, civil society organizations and business associations. The goal of the program is to strengthen participants’ skills and knowledge and to provide tools, techniques and approaches on how to assess performance and perform root-cause analyses, develop and implement performance interventions, plan project objectives and manage the team by deliverables, measure performance results against strategic intentions and communicate performance improvement project results to donors and partner institutions.

The Program combines instructional sessions with practical application and is divided into six modules in the format of training events and case studies, supported by exchange of experience among participants. The sessions have been led by international consultants from KNO Worldwide in cooperation with local co-trainers.

The first two modules covered the following topics: the Principles of Performance Consulting, Performance Assessments, Diagnostics and Root Cause Analysis, Client Engagement, Overview and Development of Performance Solutions Package. Participants learned how to identify and apply the principles of consulting assignments stages of evaluation and use of tools to diagnose root-cause analysis of gaps in the organizational activities. In addition, by using an innovative method of modeling through

case studies, local consultants were able to identify activities and prepare solutions to address gaps in the organizational activities.

The third module was devoted to Performance Driven Project Management (PDPM) with specifying deliverables and milestones, gaining commitment and structured coaching techniques. Participants were asked to create a project plan for a simulation and demonstrated use of PDPM tools and methods in the project.

The fourth module focused on Strategic Planning with the integrating of operational planning, defining of performance indicators, as well as monitoring and evaluation. The local consultants learned to plan a strategy, turn the strategy into action plan, and implement monitoring and evaluation processes through case studies.

Next two modules, which are planned for January and February 2016, will cover the Stakeholder Communications topic with an accent to facilitation and presentation skills, structured report writing elements of success stories, and team practicum where the local consultants are expected to conduct organizational assessment of a selected entity and develop recommendations on performance improvement. Presentation of the assessment results and recommendations is expected to be held as a completion activity under this program.

## **New BGI Initiatives Planned for Q1 2016**

### **Improve Service Delivery and Skills in Destinations**

*BGI Second Year Work Plan, Tourism, Activities 2.1 and 2.3*

Based on the challenges identified at all guesthouse members of our destinations, BGI will implement a pilot project in Karakol in the first quarter of 2016. BGI will launch a capacity building program to available to Karakol's more than 50 guesthouses, which will improve their service delivery, marketing, financial systems, and housekeeping practices. As part of this program, BGI will expose Karakol guesthouses to leading guesthouses in other destinations, including but not limited to Bishkek and Chui oblasts, to facilitate experience exchange and generation of business ideas, which will be further implemented with BGI's support. Based on the requests of the Karakol DMO, BGI will strive to ensure that the training program covered more advanced topics than those basic courses currently offered by the Hotel School in Cholpon-Ata, which DMO members consider too elementary. Based on BGI's experiences in delivering the program in Karakol, BGI will roll it out to guesthouses in our Osh destination and, perhaps, in other venues in Kyrgyzstan.

### **Improve Skills of Museum Staff**

*BGI Second Year Work Plan, Tourism, Activity 2.1*

Based on the challenges identified in the work of museums, BGI will implement a year-long capacity building program for staff of leading museums in BGI destinations and Bishkek to complement other initiatives aimed at diversifying and enhancing the tourism experiences in the Kyrgyz Republic. The training will cover such areas as: museums and tourism, museum management, museums and communications, fundraising, contemporary museum expositions. In the course of attending the training, participants will develop competing ideas to be presented to potential investors and BGI for further support. BGI plans to engage experts from Moscow in this initiative as well as the Kyrgyz NGO Center for Museum Initiatives.

### **Strengthen Linkages between Universities and Private Sector**

*BGI Second Year Work Plan, Tourism, Activity 2.10*

Considering the weaknesses identified by the assessment of skill gaps in the tourism sector, BGI plans to initiate a series of activities to enhance the dialogue between universities and private sector representatives. Activities include: (1) introduction of the Destination Management Course at the State Issyk Kul University in Karakol; (2) sponsor a contest of innovative ideas among students to boost

tourism in Kyrgyzstan; and (3) launch a bimonthly guest speaker program at universities for tourism faculties and students. BGI will begin this activities in the first quarter of 2016.

### **Support Human Capital Development in Tourism through BGI Grant Program**

*BGI Second Year Work Plan, Tourism, Activities 2.1, 2.3*

The Human Capital Development team responded to requests and had meetings with educational institutions, business associations and private companies that planned to apply for BGI's grants program. Some ideas that were discussed and will be considered in the first wave of concept papers are:

- Assess the feasibility of introducing the hotel classification system (proposed by the Association of Leading Hotel and Restaurants in cooperation with other tourism associations)
- Upgrade Standards of Homestays (proposed by CBT and KATO)
- Provide mentorship for women entrepreneurs in tourism (proposed by Kurak Women's Forum)
- Boosting tourism and trade in Naryn – Brandbook Development (proposed by Naryn Initiative Group in cooperation with CBT)
- Series of practical training for talented youth in regions by local service providers (proposed by the Association of Cooks of Kyrgyzstan).

### **Strengthening the Productivity and Quality of Sewing Operators**

*BGI Second Year Work Plan, Apparel, Activity 1.1*

In the first quarter of 2016, The BGI Human Capital Development team will launch a six-day training-of-trainer program for a minimum 10 trainers from front-runner and leader companies, who will further train sewing operators from their own companies to improve their skills and increase production efficiency. The program will include four days of theory and two days of practical training within a factory premises. Local trainers are expected to train minimum 50 trainees per year within their companies. The TOT program will be designed and delivered by BGI apparel advisor Paul Collyer, who will also monitor the trainers' performance by observation visits throughout the year, as well as through the submission of training record sheets to track progress of the sewing operators. In addition, BGI will develop a company profile for each Leader Company.

### **Production Management Capacity Development for Leader Companies in the Apparel Sector**

*BGI Second Year Work Plan, Apparel, Activities 1.1, 1.2 and 1.7*

Although BGI Advisor Paul Collyer has been working with front-runner companies, BGI believes that leader companies should also obtain access to training and coaching with as much individual assistance as possible within available resources. This program will improve the productivity and efficiency of the selected leader apparel companies to be able to address existing challenges and become competitive in the Russian and global clothing markets. The program will be delivered in the form of both classroom training and practical consultancy to representatives from 15 leader companies and faculty from four Kyrgyz universities, to take place on a quarterly basis. Prior to the detailed design and delivery of the program, BGI will employ a production management expert to assess the current capacity and challenges of the leader companies to establish a baseline and set the curriculum of the course. The content of the program will be focused on the following topics to be organized through separate training modules:

- Methods improvement and workplace design
- Process optimization; Plant layout and workflow
- Production planning and scheduling
- Standard development
- Operator cross-training; Staffing requirements
- Steps in apparel industries to control quality: Raw materials inspections, in-process inspection; final inspection
- Standards development

At the end of the program, manual on production management and handbooks for different types of garments will be developed.

## **Marketing and Sales Management Program for Apparel Companies**

*BGI Second Year Work Plan, Apparel, Activity 1.1*

During the first quarter, BGI will begin the design of the proposed Marketing and Sales Management Program to create a pool of qualified marketing and sales specialists in the apparel industry and stimulate employment of the trained specialists in BGI selected apparel companies. It will target around 90% newly recruited individuals (senior/last-year students from American University of Central Asia, Kyrgyz-Russian Slavic University, and Kyrgyz Economic University) as well as existing employees in charge of marketing and sales. It is envisioned that this program will be a year-long intensive and practical training program to be delivered, on average, during two-day sessions every two weeks.

## **8. Tax Policy and Administration**

### **BGI's Activities in Q4 2015**

#### **Simplified VAT Administration System**

*BGI Second Year Work Plan, Tax Administration, Activity 4.9*

On October 4, the newly elected Parliament started its work, and the BGI-sponsored VAT amendments to the tax law were included into the Parliamentary agenda for their second reading<sup>1</sup>. In order to expedite their passage, the Kyrgyz Government made a decision to combine several VAT-related draft laws that were currently at different stages of Parliamentary approval. These proposed laws included: (1) the BGI-supported VAT package on cancellation of the VAT paper invoices; (2) the draft law proposed by the Government to increase the VAT threshold from 4 million soms to 6 million soms; and (3) the cancellation of sales tax obligations for exporters, starting from January 1.

BGI Tax Program Manager Diliara Ishalina worked with the Ministry of Economy and the Parliament in revising and merging these draft laws. The combined draft law is expected to be considered in the 2<sup>nd</sup> reading by Parliament in January 2016. The actual cancellation of the VAT paper invoices is expected to come into force beginning in the second half of 2016. BGI's in-house expert will continue to provide support and consultation to the Government and the Parliament throughout the passage of the VAT draft law in the second and third readings. Once Parliament passes VAT reform legislation, BGI will continue to help the STS implement process changes that will significantly simplify VAT administration. Should a bilateral agreement be reinstated, BGI will also monitor the impact of administrative improvements by surveying VAT payers.

On November 5, Mr. Arzybek Kojoshev<sup>2</sup> was nominated as Minister of Economy by the new Parliamentary coalition and subsequently appointed by the President. BGI's Business Enabling Environment staff had an informal meeting with the newly appointed minister and briefed him about the activities and the support that USAID, through its REFORMA and BGI projects, was providing in tax policy, regulatory reforms, mining and other sectors of economy for the past four years to the Ministry of

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<sup>1</sup> On May 25, 2015, the Government approved the proposed VAT amendments and submitted the draft law to the Parliament. VAT amendments were approved in the first Parliamentary reading prior to the June 30 legislative recess. The recommended changes to VAT administration include amendments to the Tax Code, the Criminal Procedural Code, and the Code on Administrative Responsibility. The proposed changes: (1) eliminate the use of high-security invoice forms and replace them with a system for generating unique electronic invoice numbers; (2) simplify the VAT crediting and refunding procedure for conscientious taxpayers who meet fast track criteria; (3) tighten voluntary VAT registration procedures by conducting thorough due diligence prior to registration; and (4) reduce the period for which distributed invoice numbers are valid following the failure of any taxpayer to file a monthly VAT report

<sup>2</sup> Arzybek Kojoshev was appointed as Minister of Economy on November 5. Since 1996 he has been working in the Ministry of Finance, growing from the leading specialist of the Local Budgets Unit to Deputy Minister of Finance, to which he was promoted in 2007 and has been working in this position until 2015. In 2015, he was elected a Member of Parliament from Kyrgyzstan party and later nominated by this party to the position of the Economy Minister.

Economy and the Government. At the request of the newly appointed Minister, BGI delivered 50 additional copies of the EAEU VAT Administration Booklet, which describes processes for collecting VAT from importers and exporters. BGI had previously printed for distribution among business associations and key government institutions. The new booklets were distributed among the Ministry staff, particularly, in the regions.

### **Implementing Electronic Signature Security for VAT Administration**

#### ***BGI Second Year Work Plan, Tax Administration, Activity 4.1***

New VAT processes will require mandatory electronic filing of reports and expanded access for taxpayers to the VAT payers' database. In June, BGI issued a competitive tender to select an IT firm to support the STS in creating software to certify digital signatures for electronic tax reporting, including VAT. This will streamline the tax filing process and eliminate taxpayer burdens currently associated with registering and obtaining e-keys from an intermediary firm. The developed software will allow the STS to authorize taxpayers' digital signatures with substantially less cost and difficulty than through the intermediary firm.

*In July, BGI determined the winner through a competitive tender but had to suspend the activity at USAID's request following the cancellation of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20.*

### **Uniform Declaration Forms**

#### ***BGI First Year Work Plan, Tax Administration, Activity 2***

BGI continued supporting the STS in its work on improving the collection of Uniform Tax Declaration (UTD) forms through its in-house tax expert.

In June 2015, BGI's subcontractor, the Chamber of Tax Consultants, developed a new simplified UTD form for individuals who do not have taxable income, drafted procedures for completing the form for this category of individuals, made editorial changes to UTD forms and drafted the appropriate amendments and additions to procedures for filling out UTD forms for all categories of taxpayers. In addition, revised UTD forms were developed with the BGI support to simplify the completion of the forms and improve them based on the comments and suggestions received from taxpayers and to reflect the latest tax law changes.

On November 18, the Ministry of Economy posted for public discussion the draft Government Resolution to approve the new and revised forms of the Unified Tax Declaration and Procedures for their Completion, developed with the BGI support. These forms include: UTD FORM STI – 100 for individuals that are not engaged in entrepreneurial activity; UTD FORM STI – 101 for organizations; UTD FORM STI – 102 for individuals engaged in entrepreneurial activity; new UTD FORM STI – 103 for individuals who do not have taxable income (a simplified UTD Form) and the Procedures for the Completion of each form.

These proposed forms will help the State Tax Service to improve the quality of tax administration, including analysis and assessment of tax incompliance risks and will allow to rank the taxpayers depending on tax incompliance risk, determine the risk of tax evasion and will improve monitoring of the timely and full tax payments to the budget. At present, the Draft Resolution was approved by the relevant ministries and sent to the Government for signing. Its adoption is expected in January – February, 2016.

### **Study of the Elasticity of Social Fund Contributions**

#### ***BGI Second Year Work Plan, Tax Administration, Activity 4.2***

In August 2015, USAID requested that BGI suspend contracts to conduct a Study of Social Fund Contributions due to the termination of the bilateral agreement. The study had been launched in May to support a request of the Secretariat of the Business Development and Investment Council, at the



directive of then Prime Minister Joomart Otorbaev, to assess the attitudes of business owners and entrepreneurs toward Social Fund insurance rates<sup>3</sup>.

In October, subcontractor SIAR Research submitted its technical report following its completion of 1,200 taxpayer interviews, along with the completed questionnaire forms and data collected data in the SAF format for further statistics processing and modelling by Promotank. This report and data was transferred to Promotank to start developing the macroeconomic model and making projections on the elasticity of collections on insurance contributions based on the findings of the survey and the completed desk research of Kyrgyz legislation on social insurance rates and the administration of insurance contributions.

On November 25, at the quarterly meeting of the Business Development and Investment Council, Promotank Director Azamat Akeleev (who is also member of the Bishkek Business Club) informed the Prime Minister, members of the Cabinet and the business community about the suspended study and its importance to the Government in making informed decisions about reducing Social Fund contribution rates to support business development. He further requested that the Government provide funding or other support to complete the study. Prime Minister Sariev agreed on the importance of the research findings for decision-making and asked the Ministry of Finance to consider financing the completion of the research within one month, as documented by the Council's resolution. At the next Council meeting to be held in the first quarter of 2016, the Ministry of Finance should report whether it could find the resources to complete the research.

*This work remains suspended at USAID's request following the termination of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20. It will resume when USAID lifts the suspension.*

## **Ministry of Economy Adoption of the Fiscal Policy Concept for 2015-2020**

### **BGI Second Year Work Plan, Tax Administration, Activity 4.9**

Throughout 2015, BGI supported the Ministry of Economy in the development of the National Fiscal Policy Concept for 2015-2020 and the Action Plan that identifies existing challenges and recommends government policy priorities regarding taxes, social contributions and mandatory non-tax payments. BGI Tax Program Manager, who is also a member of the MoE's Fiscal Policy Methodological Council, worked closely with the relevant government ministries and agencies to identify the key issues to be addressed in the proposed Fiscal Policy Concept. On July 7, the Government approved the Fiscal Policy Concept by Resolution No. 455 "On the approval of the Fiscal Policy Concept for 2015-2020 and the Action Plan for its implementation."

BGI intended to provide continued support in the implementation of the National Fiscal Policy Concept, but this work was suspended following the termination of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20. Nonetheless, BGI in-house tax expert continued working with the MoE in implementation of certain tax reforms.

One of the sections of the adopted Fiscal Policy Concept (§ 4.2. *Tax System: VAT and Sales Tax*) provides for elimination of the duplication of the VAT and sales tax. To support the implementation of this policy, the Prime Minister, through Resolution No. 363 of August 3, 2015, created a Working Group which included BGI's Tax Program Manager. The working group was assigned to undertake analysis of various indirect taxation options covering VAT, sales tax, retail sales tax, and tax on imports. After two months, the working group presented to the Prime Minister and the Government seven different tax

<sup>3</sup> BGI subcontracted two organizations to complete the study, SIAR Research and Consulting and Promotank. Siar Research was to conduct the business survey and Promotank was to analyze the results of the macroeconomic model. The purpose of the study was to determine if reducing the rate of mandatory social insurance payments would motivate firms to increase the number of formally registered workers, thereby reducing the level of activity in the shadow economy. The combined employer and employee contribution rate for social insurance is 27.25 percent, which the business community deems excessively high, particularly relative to benefits provided. The study also sought to find ways to spread the burden of social contributions more equitably across the economy. The Social Fund provides benefits to many entrepreneurs and farmers who never contribute to the system, placing payment liabilities almost entirely on businesses that are fully operating in the formal economy.

scenarios that would ensure a competitive tax environment for the Kyrgyz Republic as a member of the EAEU and minimize potential budget losses. These options are the following: (1) full replacement of VAT by a sales tax; (2) full replacement of VAT and sales tax by a tax on retail sales and services; (3) tax on imports plus sales tax; (4) tax on imports plus retail sales tax; (5) VAT to be introduced for all entrepreneurs, regardless of revenue size; (6) cancellation of sales tax for VAT payers; (7) cancellation of sales tax for non-cash transactions.

Based on the results of the analysis, the Government made decision to choose the seventh scenario, whose adoption will conceptually help solve two problems – cancellation of the sales tax and stimulate use of non-cash transactions, whose current level is relatively low, accounting for 32% of all transactions. It is expected that this norm will come into force in the second half of 2016.

In implementing another provision of the Fiscal Policy Concept on Fiscal Preferences (*Section § 4.4. Mechanisms and Instruments of Taxation*) the Ministry of Economy created another inter-ministerial working group, through Order on November 19, 2015 to undertake a cost-benefit analysis for current tax preferences and incentives and to develop recommendations to the Government based on its findings. BGI's Tax Program Manager is also included into this working group. The working group prepared the data collection form that has been sent to all regional tax offices with the instruction to provide required tax data for analysis. The findings and recommendations of the working group are expected to develop an assessment methodology that would help justify introduction of tax preferences based on world best practices. BGI will continue providing expert advice and consultation through its in-house expert.

## **Implementing the Law to Simplify the Registration and Liquidation Procedures for Businesses**

### *BGI Second Year Work Plan, Tax Administration, Activity 4.3*

On June 1, the President signed the law “On Amendments and Additions to Certain Legislative Acts of the KR” to simplify the registration and liquidation procedures for businesses. The law was developed by Kalikova & Associates under a grant issued by the REFORMA Project in April 2014. The law simplifies the registration and liquidation procedures of enterprises through amendments to the Tax Code, the Civil Code, the Law on State Registration of Businesses, the Law on Accounting and others. For the registration of individual entrepreneurs, the law transfers their business registration from the National Statistics Committee to the State Tax Service (STS). The STS will simultaneously register enterprises as business entities as well as complete their tax registration within five working days at either the place of their residence/passport registration or place of their business operations.

In July, BGI subcontracted the Chamber of Tax Consultants (CTC) to help the STS take over the functions of the state registration of individual entrepreneurs. The CTC was expected to assist the STS in creating the legal framework to transfer these processes to the STS and to automate registration through the development of a separate software module for its tax management system. This activity was suspended at USAID's request following the cancellation of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20.

Nevertheless, the BGI Tax Program Manager continued providing expert advice to the working group that had been set up by STS management and composed of representatives from the CTC, the STS, the National Statistics Committee (NSC), and the Social Fund (SF). The working group developed the Concept for registration, re-registration and liquidation of the businesses of individual entrepreneurs and farm entities by the STS. In line with the Concept, the working group identified the list of normative and legal acts that need to be changed or developed. On December 21, the Government adopted Resolution # 860 “On making amendments and additions to Government Resolution “On the State Tax Service of the KR” to add state registration of individual entrepreneurs to the list of the STS functions. In addition, the working group drafted the regulation on the “Procedures for Tax Registration and for Maintenance of the State Register of Taxpayers in the KR” which has been submitted to the Government for review and adoption. The BGI Tax Program Manager continues working with the STS in designing the working processes for introduction of this new state registration function in STS.



*This activity remains suspended at USAID's request following the termination of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20. It will resume when USAID lifts the suspension.*

## 9. Business Regulations – Licensing and Inspections

### BGI's Activities in Q4 2015

#### **Optimizing the Conduct of Environmental and Technical Safety Inspections**

##### *BGI Second Year Work Plan, Business Regulation, Activity 5.1*

Most of BGI's work in business licensing and inspections has been suspended at USAID's request following the termination of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20.

Nevertheless, in line with USAID's instruction, BGI's in-house lawyer Raisa Ermakova has continued working with the Ministry of Economy in improving the legal framework for the conduct of environmental and technical safety inspections.

She provided expert advice and consultation to Member of Parliament Dastan Bekeshev on the two draft laws on ecological safety and radiological safety that had been previously developed by BGI to close the legal gap caused by the revocation of all technical regulations following EAEU accession. Mr. Bekeshev was the initiator of the law and, before the Parliament recess in June 2015, he formally asked the Ministry of Economy and the State Agency for Technical and Ecological Protection to further review the draft law and submit it to Parliament. After his re-election to the Parliament on October 4, he said he would initiate the draft laws in Parliament directly. He asked for BGI legal assistance in obtaining conclusions from the MoE and State Agency for Environmental Protection for the two draft. BGI's lawyer is coordinating with government bodies to obtain these conclusions.

Mr. Bekeshev also asked for expert advice and consultation on another draft law submitted to the Parliament on Making Amendments and Additions to the Law on the Procedures for the Conduct of Inspections of Businesses<sup>4</sup>.

This draft law was approved by the Parliament in the first reading on December 2, following its approval in the Economic and Fiscal Policy Committee on November 11. At Mr. Bekeshev's request, BGI's lawyer prepared the following documents for Parliament to guide the deputies throughout the passage process: (1) a comparative table comparing the original draft proposed by BGI and the draft submitted by the MoE; (2) the draft law through which amendments to the existing law will be made, and (3) the list of proposed provisions to the existing law. All three documents were presented to Mr. Bekeshev and were accepted. MP Bekeshev is expected to include the proposed amendments to the draft law on inspections during the second reading, which is expected in January – February 2016.

In November – December, BGI subcontractor, EcoPartner, made a presentation on the procedures of the conduct of environmental and technical safety inspections at a GIZ workshop for mining companies. The BGI-developed Guide for Entrepreneurs on the Conduct of Inspections was distributed, explaining businesses inspection procedures, rules and requirements, and the companies' rights and obligations

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<sup>4</sup> BGI through its subcontractor, EcoPartner, had drafted the original amendments and additions to the Law "On the procedures for conducting inspections of businesses" and submitted it to the MoE along with the full package of supporting documentation. The MoE then combined this proposed law with the amendments proposed by the IFC. The proposed changes included the requirement for mandatory publication of inspection plans and the list of inspections that were actually performed by inspections agencies during the quarter. It also recommended that the Government publish the results of inspections of those types of activities that are hazardous for human health and the environment. The proposed law authorized the Government to release from inspections those businesses that represent low levels of risk, to reduce the maximum time allowed to conduct certain types of inspections, and other provisions to ease doing business. Following public discussion, the draft law was approved by line ministries and agencies and by Government Resolution dated July 20, 2015. It was subsequently submitted to the Parliament for review and adoption.

during the inspection process. EcoPartner made another presentation at a seminar for entrepreneurs organized by UNDP.

BGI and EcoPartner planned to continue a series of training courses throughout the country for entrepreneurs and inspectors on the new procedures of conduct of business inspections. However, this activity was suspended following the cancellation of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20.

## **Reforms in Business Licensing and Permitting**

### ***BGI Second Year Work Plan, Business Regulation, Activity 5.2***

The work in the area of business licensing has been suspended at USAID's request following the termination of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20.

Nevertheless, BGI lawyer Raisa Ermakova continued working with the Ministry of Economy and the Government to finalize amendments proposed to the Law on Licensing and Permitting System, based on the comments and suggestions received from ministries and agencies.

The proposed law is supported by businesses but has been facing strong resistance from a few government licensing institutions that do not want to lose its licensing authorities and control over businesses through the licensing instrument. The ministries and agencies delayed the adoption of the law by lobbying their interests through personal relationships in the government and making amendments to the normative and legal acts through the Parliament that contradicted the proposed licensing law amendments. The draft law was expected to have been considered at the Government meeting in October, but due to comments raised by the Ministry of Finance, Ministry of Justice and the Agency for Control over the Securities' Market, the draft law was sent back to Vice Prime Minister Pankratov to address the remaining comments and resubmit the fully agreed document to the Prime Minister.

BGI's lawyer and the MoE met with representatives of these three government institutions and discussed their proposals. Thus, the MoF concurrently submitted the draft law to introduce a definition of the state duty for licensing to replace the definition of "charge" (platezh). After a series of discussions with the newly appointed Minister of Finance Kasymaliev, the draft law was withdrawn. The State Agency for the Securities Market submitted the draft law on licensing the pawnshops to the Parliament and, after a series of meetings, the Agency agreed to withdraw its draft law. The Ministry of Justice its right to license attorneys and was successful. The Government agreed that the Ministry of Justice should continue to license attorneys.

On November 20, the finalized draft law was submitted to the Government with the updated draft, RIA and the Matrix of Disagreements. At this last stage, the State Agency for Control over the Securities Market contested its right to suspend entrepreneurial activity at its own discretion, without court ruling. Nonetheless, the draft law was approved by the relevant departments of the Prime Minister's Office and Vice Prime Minister Oleg Pankratov. It was then submitted to First Vice Prime Minister Aaly Karashev for review and resolution of the remaining contentious issues and objections of the State Agency for the Securities Market.

In order to remove the controversies and come to agreement, BGI's lawyer worked with the Ministries of Economy and Justice and other ministries and business representatives to finalize the draft law and remove all controversies. Presentations were held for Deputy Minister of Economy Daniyar Imanaliev, newly appointed Minister of Economy Arzybek Kojoshev, and Vice Prime Minister Oleg Pankratov to present the draft law provisions. Although most of the proposed provisions were kept, the ministries and agencies managed to lobby their interests and, as a result, the list of licensed activities to be cancelled was reduced from 23 to 12. In addition, six new licenses and permits were proposed for the following business activities: insurance (re-insurance); credit bureaus; sale of pyrotechnical devices; breeding and processing of fauna objects; permits for construction activities (other than licensed ones); and permits for parallel designing and construction.

On December 29, the Prime Minister signed the Government Resolution “On Draft Law to Make Amendments to Certain Legislative Acts (Law on Licensing and Permitting System and Law on Electric and Postal Service) approving the proposed law and ordering that it be urgently submitted to the Parliament for consideration and passage. The Ministry of Economy, Ministry of Transport and Communication, and the Director of the Communications Agency were assigned to present and defend the draft law in the Parliament.

*The work in the area of business licensing remains suspended at USAID’s request following the termination of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20. When USAID lifts the suspension and Parliament passes the amendments, BGI will undertake training for both licensing issuing agency personnel and businesses to ensure the smooth implementation of the Law and licensing regulations.*

## 10. Access to Finance

### BGI’s Activities in Q4 2015

#### **Reintroduction of the Purchase Order Finance (POF) Product**

*BGI Second Year Work Plan, Business Regulation, Activity 6.1*

Throughout 2015, BGI mobilized consultant Rick Currie to help the project reintroduce the POF product. Following the favorable changes in prudential regulations for short-term lending by the National Bank of the Kyrgyz Republic (NBK) in June, in the fourth quarter BGI signed letters of intent with three Kyrgyz banks interested in reviving the purchase order financing (POF). Bai Tushum Bank, Demir Bank, and the Kyrgyz Investment and Credit Bank (KICB) have agreed to introduce the POF product to their best clients because NBK regulations have discontinued the required use of real estate to collateralize short-term working capital loans. This will enable banks to use purchase orders or sales contracts to back-stop loans of up to one year, theoretically strengthening the creditworthiness of the borrower with the potentially stronger credit resources of the buyer.

Under agreements with banks, Bai Tushum Bank committed to approving and disbursing, at least, five POF loans totaling KGS 3,000,000 (\$40,000) and Demir Bank committed to, at least, approving and disbursing three POF loans without specifying the total amount. KICB will identify POF loans and determine amounts in the course of POF program implementation. BGI will provide technical assistance to review credit policies, credit analysis practices, and legal documentation to help banks roll out POF and other short-term lending products to finance small and medium enterprises, particularly in those sectors which are a focus for the BGI project.

In the fourth quarter, BGI reviewed the credit policies and procedures of KICB and Bai Tushum, but did not do so for Demir Bank since this was done two years ago under the former USAID Local Development Project (LDP). The Access to Finance team reviewed the retail and SME lending policies and procedures of both banks and found that the policies at both banks are comprehensive and inclusive. The team recommended that Bai Tushum and KICB banks develop credit policies specific to POF as a new loan product and, as a result, have drafted the following POF credit documents as part of the implementation plans: POF credit policies and procedures, credit flow charts, and questions for client visits. The partner banks will then review, modify the policies if necessary, and then seek management board approval for adoption and incorporation into their existing credit policies. BGI also reviewed Bai Tushum’s loan and collateral agreements and found they were satisfactory.

BGI and the banks finalized implementation plans, and BGI has delivered two half-day POF product design workshops to the credit staff of Demir Bank and KICB. A total of 22 participated in the training, 16 from Demir Bank’s credit staff, including marketing/sales, legal and risk management, and six credit staff, including legal and risk management from KICB.

In the first quarter of 2016, BGI will specifically help the banks design the POF product to support the working capital needs of BGI’s apparel sector Innovation Club participants who are trying to break into

the European and Russian retail markets. BGI will also provide further in-depth credit analysis training for partner banks. BGI will continue technical assistance advisory work with partner banks on the roll-out of POF loan program, including final review and approval of POF credit policies and procedures for KICB and Bai Tushum, and review and amend, if necessary, the loan and collateral agreements of KICB in order to accommodate POF loans.

BGI's international consultant will develop a one-day POF credit analysis training program and materials and deliver these courses in January. He will work closely with the partner banks and provide technical assistance in product design and implementation, cash flow analysis and projections, financial statements analysis, analysis for accounts receivables and inventory financing, marketing and client identification. He will also identify potential shortcomings to banks' use of the POF product, particularly in light of reserve requirements, and identify and recommend potential work-arounds or incentives for partner banks to engage activity in developing and promoting the POF project in the three BGI value chains. This is because it is unlikely that Kyrgyz banks have sufficiently sophisticated underwriting systems in place to analyze the creditworthiness of the buyers of Kyrgyz borrowers. The NBK has also placed higher reserve requirements on loans lacking real estate collateral, so BGI plans to recommend incentives to encourage POF lending at select banks.

BGI also plans to conduct an in-house survey of the financing needs of 22 Innovation Club apparel companies, including an assessment of their interest in equity investments, and prepare recommendations on the design of the POF product for apparel firms. Following this, BGI will conduct a bank to businesses round table with partner banks and apparel front runners and leaders to introduce the POF concept, communicate apparel firm financing needs to banks, and introduce firms to participating banks. Bai Tushum, particularly, was interested in seeking BGI's assistance in conducting analysis of the apparel value chain to help the bank design the POF product for the apparel value chain, similar to a program it had introduced to support the pre-harvest needs of Kyrgyzstan's sugar beet-growing industry.

### **Study on the Leasing Environment in the Kyrgyz Republic**

#### ***BGI Second Year Work Plan, Business Regulation, Activity 6.2***

During the fourth quarter, submitted the final report for BGI's Study on the Leasing Market in the Kyrgyz Republic. The study reviewed the legal framework and local practices and experiences in using leasing as a financing mechanism for private sector capital equipment investment. The team identified remaining constraints, particularly in the implementation of tax and customs regulations. The team also analyzed the leasing portfolios of banks, leasing companies and non-bank financial institutions and conducted in-depth interviews and seven focus groups with lessors and lessees to understand how successful leases have been structured, why these particular structures work, and what mechanisms could be introduced to make them work better.

BGI, however, was unsatisfied with the quality of analysis of the final report and requested that the subcontractors to make substantial changes and additions to the report. The subcontractors will submit the revised report in January to include recommendations on how to strengthen the business environment for leasing, both in terms of the quality of the legal framework as well as in its implementation. As a result, the public presentation of the leasing market study, planned for December, was rescheduled and will take place early in the first quarter of 2016. It is currently undetermined what additional support BGI may extend to implement the final recommendations of the report to improve the environment for leasing transactions.

## 11. Civil Aviation Safety

### BGI's Activities in Q4 2015

#### **Adoption of ICAO Aviation Rules**

*BGI Second Year Work Plan, Civil Aviation, Activity 7.2*

Following adoption of the new Air Code, BGI intended to provide support to bring ICAO's aviation rules (nineteen annexes of the Chicago Convention) into compliance with the new Kyrgyz Air Code and ensure that they are in line with EU norms and standards, including harmonization with both Kyrgyz and European legislation. BGI planned to issue a subcontract to the Association of Civil Aviation Enterprises (ACAE) to draft the 11 most critical rules prior to the rescheduled ICAO Audit in January 2016. These activities were never initiated at USAID's request following the termination of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20. Once suspension is lifted, BGI will issue the subcontract and launch the project.

Following dismissal of the Director of the Civil Aviation Agency (CAA) Erkin Isakov in July 2015, Ermek Omuraliev, previously Deputy Director of Air Manas airlines affiliated with Pegasus airlines, was appointed as a new CAA Director on November 16.

During an informal meeting held with BGI DCOP and Civil Aviation Program Manager, CAA Director Omuraliev informed them that he was preparing a memo to the Prime Minister on the current situation in civil aviation and requested BGI to consider resumption of the planned activities to help the CAA in preparation for the ICAO audit scheduled for January 2016. In addition, the Air Code shall enter into force on February 6, six months later after signing by KR President, and during this six-month period the CAA was supposed to have prepared all necessary regulations (aviation rules, CAA Regulation, CAA Financing Regulation) to bring its legal framework in line with the new Code provisions. Without USAID support, the CAA was unable to complete these planned activities.

*These activities remain suspended at USAID's request following the cancellation of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20. Once suspension is lifted, BGI will issue the subcontract and launch the project.*

#### **Document Management System Software Development, Archive Digitization and Hardware Procurement**

*BGI Second Year Work Plan, Civil Aviation, Activity 7.4*

In April 2014, ICAO's inspectors recommended that the CAA establish and implement an electronic documentation system (EDS) to ensure that all necessary documentation is available to CAA staff, including ICAO documents that are not published in the ICAO-NET website.

In July, BGI issued three tenders for the procurement of the following:

1. Develop, install and support the software for the EDS;
2. Provide services for scanning (digitization), indexing, and loading of the archived CAA's documents;
3. Provide hardware and basic business software to ensure that the CAA has adequate equipment to accommodate the data management system.

*In August, BGI selected the SINAM Company as the winning firm to complete the document scanning. The subcontract was never issued at USAID's request following the cancellation of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20. The tenders for the other two procurements were never completed once suspension is lifted, BGI will resume the procurement for implementation of these activities*

## **Draft Provision for the New Organizational Structure of the CAA**

### *BGI Second Year Work Plan, Civil Aviation, Activity 7.3*

In July, BGI issued a competitive tender to develop a draft Provision for the new organizational structure of the Agency to strengthen its safety oversight capacity and rectify the findings of the ICAO Universal Safety Oversight Audit in 2009 for submission to the Government. Based on consulting firm Integra's recommendations and approval of the Government for the draft Provision on the mechanism of self-financing of the Agency, the new provision was to include qualification requirements for key personnel in the Agency, a salary strategy, and a structure to optimize the availability of qualified staff to carry out required safety oversight functions.

*Although the firm, Kalikova & Associates was determined the winner of this tender, this activity was suspended at USAID's request following the cancellation of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20. Once suspension is lifted, BGI will issue the subcontract and launch the project.*

## **12. Mining Policy and Capacity Development**

### **BGI's Activities in Q4 2015**

#### **Public Awareness for Mining Sector Development**

##### *BGI Second Year Work Plan, Mining Policy, Activity 8.2*

In the summer of 2015, BGI engaged the NGO Nedra to conduct a public awareness campaign and deliver public seminars across Kyrgyzstan to educate local communities on the Government's adoption of the USAID-supported Medium- and Long-Term Development Strategy for the Mineral Resources Sector. The seminars were intensively and broadly covered by mass media through interviews for national broadcasting companies and publishing articles in local newspapers. They were also highly evaluated by representatives of local communities and mining companies, who asked BGI to conduct additional seminars in other regions.

In the fourth quarter, Nedra submitted its final report on the public awareness campaign, including a database of regional stakeholders and analysis of the participants' feedback about the seminars<sup>5</sup>. A quick survey following the workshops showed that an overwhelming majority appreciated the content and format of the seminars: 94% of the participants indicated that they liked the presentations; 93% recommended that such seminars should be held in each region of the republic, targeted at the local community of that particular area; 86% indicated that the speakers and presenters answered all the questions; and 46% advised that similar seminars should be held regularly, at least, quarterly.

Regarding content of the workshops, participants suggested that they include more detailed information on monitoring policy compliance and outline more specifically: (1) the responsibilities of the government and mining companies; (2) methodologies for the use and treatment of water; (3) mechanisms and amount of payments to local budgets; (4) permits to be issued by local self-governments to companies; and (5) issues surrounding the central budget, cash flow, land use and others.

Two planned activities were not completed due to suspension of activities following the termination of the bilateral agreement. Nedra was to produce a video clip providing brief information about the mining industry, describing its role in economic development, and encouraging people to support creating a favorable environment for investment in the sector. BGI also was to support the State Geology Agency in conducting the 2nd National Conference on Mining Conflicts Mitigation.

*This activity remains suspended at USAID's request following the cancellation of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20. Once USAID lifts the*

<sup>5</sup> The seminars and public meetings took place with regional stakeholders across the country in six oblast and two rayon centers from July 21-30. Awareness-raising activities included discussions with local communities, representatives of local self-government, deputies of local councils, local community activists and local NGOs and journalists.



*suspension of this project, Nedra will conduct the suspended activities and will develop Final report on the remaining uncompleted activities.*

### **Mining Advisory Council under the Ministry of Economy**

*BGI Second Year Work Plan, Mining Policy, Activity 8.1*

During the fourth quarter, BGI's Mining Program Manager actively participated in the work of the Mining Advisory Council on drafting and review of the mining legislation. Council members particularly discussed new amendments to the mining law regarding introduction of the new method of mining rights allocation based on the "first come, first served" principle as well as reviewed the Draft Regulation on the Regional Development Fund.

BGI's Mining Program Manager also actively participated in donor community meetings with DFID, British Geology Service, GIZ, World Bank, Canadian Embassy and others to coordinate and better plan mining-related activities with donor organizations that have been working in the sector or planning to launch future activities in the mining sector of Kyrgyzstan.

In the first quarter of 2016, BGI will continue these initiatives.

### **Study for Introducing a Local Content Requirement for Mining Companies.**

*BGI Second Year Work Plan, Mining Policy, Activity 8.5*

The Ministry of Economy had requested BGI to support an assessment of the feasibility of introducing a local content requirement for mining companies to increase the ability of Kyrgyz firms to participate in the procurement of goods and services by mining development and exploration companies. The study was to identify which possible goods and services would be available for procurement by these firms and determine the possible incentives and restrictions which could be introduced to encourage greater procurement of local goods and services, based on international practices.

*This activity was never initiated at USAID's request following the cancellation of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20. Once suspension is lifted, BGI will determine whether to issue a competitive tender to launch the project.*

## **13. World Trade Organization (WTO) Commitments**

### **BGI's Activities in Q4 2015**

#### **New BGI Initiatives Planned for Q1 2016**

##### **Assistance with WTO Commitments**

*BGI Second Year Work Plan, Trade Policy, Activity 9.1*

In June 2015, BGI hired Mr. Muktar Jumaliev to provide consultative assistance to the Ministry of Economy (MoE) to reconcile commitments under Kyrgyzstan's WTO membership with those of the EAEU. He began work with the Inter-Ministerial Working Group under the Government and the Ministry of Economy to provide advice on resolving services sector issues with the EAEU Secretariat.

*BGI's participation in this activity, however, was suspended following the cancellation of the bilateral Agreement by the Government of the Kyrgyz Republic, effective August 20. Once suspension is lifted, BGI will issue a subcontract the association and will launch the project.*

## 14. Grants Program Launch

### BGI's Activities in Q4 2015

#### *BGI Second Year Work Plan, Administrative, Activity 12.1*

With the July approval of Deloitte's Project Fund Manual, BGI planned to launch its grants program. In August, BGI presented its Annual Program Statement (APS) to USAID for approval. The APS outlines the development goals the project seeks to achieve through the grants program, which reinforce existing project programs. These include promoting improved performance of the apparel, tourism and construction materials sectors, while expanding access to finance, providing greater economic opportunities for women and youth, increasing entrepreneurship, and creating a stable and enabling business environment that, ultimately, increases the productivity, output, investment, and employment of Kyrgyz firms.

On November 6, BGI officially launched its grants program, which provides funding to non-government organizations (NGOs), educational institutions and private sector players to pursue innovative programs that further BGI's economic development goals. Nearly 100 potential grantees attended BGI's grants kickoff workshop held in Bishkek on November 6, in which the BGI grants team highlighted program and eligibility requirements and application and award processes. The team subsequently conducted similar workshops in each of Kyrgyzstan's seven oblasts to a total of 409 representatives (197 men, 212 women) participants nationwide.

During the workshops, BGI identified that the first step in accessing a BGI grant is for organizations to submit a grants concept paper to enable BGI to ascertain whether the applicant and proposed activity meet eligibility criteria. BGI provided participants with a package of handouts that offered guidance on the types of grants, types of organizations eligible to receive grants through the program, activities that will be considered for grant support, budgetary considerations, grant application options, and key conditions of a grant award.

BGI will accept concept papers continuously throughout the project year but reviewed and approved quarterly. The cut-off dates for review within those quarter periods – January 28, April 28, July 28, and October 28, 2016.

Following the first cut-off date, January 28, 2016, BGI will review the concept papers and notify applicants whose concept papers are approved that they may submit a full grants application for final consideration during the first quarter of 2016.



## 15. Local Subcontracts and Consultants

The following is a list of local subcontracts and awards under the BGI Project.

**BGI Local Subcontracting Awards and History – Q4 2015**

|    | <i>Subcontracting Activity</i>                                                          | <i>Subcontractor(s)</i>                      | <i>Award Date</i> | <i>Period of Perform.</i> | <i>Contract Value</i> | <i>Status</i> |
|----|-----------------------------------------------------------------------------------------|----------------------------------------------|-------------------|---------------------------|-----------------------|---------------|
| 1  | Conducting Textile/Apparel Value Chain Study                                            | Central Asia International Consulting (CAIC) | Dec 2014          | 4 months                  | \$61,096              | Completed     |
| 2  | Conducting Assessment of Demand and Supply of Skills in BGI Value Chains                | M-Vector                                     | Dec 2014          | 4 months                  | \$56,411              | Completed     |
| 3  | Promoting Passage of the New Air Code                                                   | Kalikova & Associates                        | Dec 2014          | 6 months                  | \$38,329              | Completed     |
| 4  | Implementing VAT Administrative Reform                                                  | MF Consulting                                | Dec 2014          | 6 months                  | \$72,460              | Completed     |
| 5  | Providing Services for Entering the Russian Apparel Market for Kyrgyz Apparel Producers | Fashion Consulting Group                     | Feb 2015          | 2 months                  | \$26,220              | Completed     |
| 6  | Promoting Tax Literacy to Prepare for the Introduction of Universal Tax Declaration     | Chamber of Tax Consultants                   | Feb 2015          | 6 months                  | \$68,960              | Completed     |
| 7  | Conducting Construction Materials Value Chain Study                                     | International Business Council               | Feb 2015          | 4 months                  | \$56,436              | Completed     |
| 8  | Broadcasting Video and Audio Announcements on Universal Tax Declaration                 | Vzgrad.kg                                    | Feb 2015          | 2 months                  | \$41,856              | Completed     |
| 9  | Providing Continued Capacity Developments for the State Geology Agency                  | Education and Career Foundation              | Feb 2015          | 6 months                  | \$24,812              | Completed     |
| 10 | Legal Revision, Checklist Development and Training on New Inspections Methodologies     | EcoPartner                                   | Mar 2015          | 7 months                  | \$103,278             | Suspended     |
| 11 | Study of the Market for Leasing in the Kyrgyz Republic (1)                              | Union of Kyrgyz Banks                        | Jun 2015          | 4 months                  | \$21,307              | Ongoing       |
| 12 | Study of the Market for Leasing in the Kyrgyz Republic (2)                              | ISR Consult                                  | Jun 2015          | 4 months                  | \$40,455              | Ongoing       |
| 13 | Study of the Elasticity of Social Fund Contributions (1)                                | Promotank Consulting                         | Jun 2015          | 5 months                  | \$40,406              | Suspended     |
| 14 | Study of the Elasticity of Social Fund Contributions (2)                                | Siar Research                                | Jun 2015          | 5 months                  | \$54,200              | Suspended     |
| 15 | Launching Public Education Campaign for Mining Strategy                                 | Nedra Public Fund                            | Jun 2015          | 3 months                  | \$53,640              | Suspended     |
| 16 | Conducting Results Survey of the Tax Declaration Campaign                               | ISR Consult                                  | Jun 2015          | 2 months                  | \$25,685              | Completed     |
| 17 | Conducting Baseline Survey of Destination Management Sites                              | Siar Research                                | Aug 2015          | 3 months                  | \$29,910              | Completed     |
| 18 | Transferring Registration of Individual Entrepreneurs to the STS                        | Chamber of Tax Consultants                   | Aug 2015          | 8 months                  | \$56,912              | Suspended     |

**BGI Local Subcontracting Awards and History – Q4 2015**

|                                   | <i>Subcontracting Activity</i>                                      | <i>Subcontractor(s)</i> | <i>Award Date</i> | <i>Period of Perform.</i> | <i>Contract Value</i> | <i>Status</i> |
|-----------------------------------|---------------------------------------------------------------------|-------------------------|-------------------|---------------------------|-----------------------|---------------|
| 19                                | Conducting Study of the Turkish Outbound Tourism Market             | Egemenik                | Sep 2015          | 3 months                  | \$11,400              | Ongoing       |
| 20                                | Conducting Cell Phone Survey of the Turkish Outbound Tourism Market | Geocell (Mobile Accord) | Sep 2015          | 4 months                  | \$24,961              | Ongoing       |
| 21                                | Organizing Grants Launch Events in Bishkek and Throughout Regions   | Instream                | Oct 2015          | 3 months                  | \$32,227              | Ongoing       |
| <b>TOTAL SUBCONTRACTS AWARDED</b> |                                                                     |                         |                   |                           | <b>\$940,960</b>      |               |

**Anticipated BGI Local Subcontracting Awards – Q1 2016**

|                                                        | <i>Subcontracting Activity</i>                                          | <i>Selected Subcontractor</i> | <i>Anticipated Award Date</i> | <i>Target Period of Performance</i> | <i>Anticipated Subcontract Value</i> |
|--------------------------------------------------------|-------------------------------------------------------------------------|-------------------------------|-------------------------------|-------------------------------------|--------------------------------------|
| 22                                                     | Assistance in Marketing and Sales for the Apparel Sector                | Pic This, Mike Mikkelsen      | Feb 2016                      | 6 months                            | \$100,000                            |
| 23                                                     | Manufacture and Installation of Signage Supporting Tourism Destinations | TBD                           | Mar 2016                      | 6 months                            | \$70,000                             |
| 24                                                     | Museum Capacity Development                                             | TBD                           | Mar 2016                      | 12 months                           | \$70,000                             |
| <b>TOTAL ANTICIPATED SUBCONTRACT VALUE FOR Q1 2016</b> |                                                                         |                               |                               |                                     | <b>\$240,000</b>                     |

**Anticipated BGI Grant Awards – Q1 2016**

|                                                        | <i>Subcontracting Activity</i>                       | <i>Grantee</i>                   | <i>Anticipated Award Date</i> | <i>Percent Awardee Contribution</i> | <i>Total Procurement</i> |
|--------------------------------------------------------|------------------------------------------------------|----------------------------------|-------------------------------|-------------------------------------|--------------------------|
| 1                                                      | Purchase of Apparel Cutting Equipment                | Zorin                            | Feb 2016                      | \$133,000                           | \$266,000                |
| 2                                                      | Purchase of Apparel Embroidery and Cutting Equipment | TeDIS                            | Feb 2016                      | \$7,220                             | \$28,880                 |
| 3                                                      | Purchase of Apparel                                  | Dastan                           | Feb 2016                      | \$2,400                             | \$12,000                 |
| 4                                                      | Purchase of Ski Safety Equipment                     | Alakol Guest House, Jyrgalan DMO | Feb 2016                      | \$3,532                             | \$19,622                 |
| <b>TOTAL ANTICIPATED SUBCONTRACT VALUE FOR Q1 2016</b> |                                                      |                                  |                               |                                     | <b>\$315,702</b>         |

**BGI Independent Local Consultant Awards and History – Q4 2016**

| <i>Consulting Activity</i>                                                                                                           | <i>Consultant</i>                                        | <i>Award Date</i> | <i>Period of Perform.</i> | <i>Contract Value</i> | <i>Status</i> |
|--------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|-------------------|---------------------------|-----------------------|---------------|
| <b>Amending the Law on the Licensing System and Implementing Regulations</b>                                                         | Nurgazy Zhokunov                                         | Jan 2015          | 12 months                 | \$20,000              | Suspended     |
| <b>Assessing the IT Capabilities of the Civil Aviation Agency</b>                                                                    | Bolot Orozmatov                                          | Mar 2015          | 9 months                  | \$10,000              | Completed     |
| <b>Improving the Collection and Reporting of Tourism Statistics</b>                                                                  | Nurjan Toktogulova                                       | Apr 2015          | 6 months                  | \$3,000               | Completed     |
| <b>Design and Delivery of Business Plan Training and Evaluation of Apparel Project Applicants</b>                                    | Erkin Dzhamanbaev                                        | May 2015          | 3 months                  | \$9,720               | Completed     |
| <b>Assistance in Developing International Agreements for Trade in Services</b>                                                       | Muktar Jumiliev                                          | May 2015          | 4 months                  | \$16,800              | Suspended     |
| <b>Apparel Transactions and Tax Requirements and Make Recommendations for Bringing Apparel Firms into the Formal Business Sector</b> | Maksim Smirnov                                           | May 2015          | 4 months                  | \$12,720              | Completed     |
| <b>Completion of Apparel Front-Runner Work Plans</b>                                                                                 | Aleksei Lavrienko                                        | Sep 2015          | 5 months                  | \$12,000              | Completed     |
| <b>Construction Engineer (Burana, Osh)</b>                                                                                           | Bektemir Dzheenbaev                                      | Oct 2015          | 4 months                  | \$3,494               | Ongoing       |
| <b>Environmental Assessment Specialist (Burana, Osh)</b>                                                                             | Ruslan Riabikin (Consult-KG Ltd.)                        | Oct 2015          | 4 months                  | \$3,333               | Ongoing       |
| <b>Construction Engineer</b>                                                                                                         | Nurlan Orozbaev                                          | Oct 2015          | 4 months                  | \$3,413               | Ongoing       |
| <b>Environment Assessment Specialist (Karakol, Jyrgalan)</b>                                                                         | Ana Kirilenko (Biom Youth Ecological Movement)           | Oct 2015          | 4 months                  | \$3,421               | Ongoing       |
| <b>Organization of the Exhibition of Women Entrepreneurs at the Opening of new Chancery of the US Embassy</b>                        | Gulmira Asanbaeva (Alliance of Trainers and Consultants) | Oct 2015          | 2 months                  | \$3,108               | Completed     |
| <b>Handicrafts and Catering Training - Jyrgalan Fest</b>                                                                             | Damira Abdybekova                                        | Oct 2015          | 2 months                  | \$3,190               | Completed     |
| <b>Travel and Free-Ride Ski Blogger - Jyrgalan Fest</b>                                                                              | Svetlana Khlebnikova                                     | Nov 2015          | 2 months                  | \$1,778               | Completed     |
| <b>Organization of Innovation Club Meetings</b>                                                                                      | Capacity Building Foundation                             | Nov 2015          | 6 month                   | \$3,280               | Ongoing       |
| <b>TOTAL CONSULTANT CONTRACTS AWARDED</b>                                                                                            |                                                          |                   |                           | <b>\$109,257</b>      |               |

## 16. Financial Results

| Budget Cost Elements                | Budgeted Amount        | Invoiced Amount as of Dec 12, 2015 | Accrual Amount as of Dec 31, 2015 | Expended Amount       | Remaining Budget to Complete |
|-------------------------------------|------------------------|------------------------------------|-----------------------------------|-----------------------|------------------------------|
| Labor                               | \$3,589,499.00         | \$905,974.12                       | 50,884.52                         | \$956,858.64          | \$2,632,640.36               |
| Total Other Direct Costs            | \$5,652,519.00         | \$1,812,676.95                     | \$180,906.39                      | \$1,993,583.34        | \$3,658,935.66               |
| <b>PROJECT FUND</b>                 |                        |                                    |                                   |                       |                              |
| <i>Local Subcontractor</i>          | \$3,397,795.00         | \$805,375.21                       | \$35,418.40                       | \$840,793.61          | \$2,557,001.39               |
| <i>Grants</i>                       | \$1,225,490.00         | \$0.00                             | \$0.00                            | \$0.00                | \$1,225,490.00               |
| Indirect cost                       | \$5,348,954.00         | \$1,174,425.51                     | \$52,324.22                       | \$1,226,749.73        | \$4,122,204.27               |
| <i>Fixed Fee</i>                    | \$858,738.00           | \$306,168.49                       | \$0.00                            | \$306,168.49          | \$552,569.51                 |
| <i>Fixed fee on subs and grants</i> | \$98,039.00            | \$0.00                             |                                   | \$0.00                | \$98,039.00                  |
| <b>Total</b>                        | <b>\$20,171,034.00</b> | <b>\$5,004,620.28</b>              | <b>\$319,533.53</b>               | <b>\$5,324,153.81</b> | <b>\$14,846,880.19</b>       |

## 17. Report Annexes

Annex A: Primary Events, Training, and Focus Group/Research Conducted

Annex B: Table of Deliverables

## Annex A: Primary Events, Training, and Focus Group/Research Conducted

Primary Events, Training and Focus Group/Research Conducted (E=event, T=training, F=focus group)

**QUARTER 1:** Primary Events, Training and Focus Group/Research Conducted (E=event, T=training, F=focus group)

| Component              |   | BGI Event                                                                                                                                                                | Men   | Women | Total |
|------------------------|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|-------|
| Apparel                | E | October 7 – Innovation Club Meeting. Receiving permission for export to the countries of EAEU and EU                                                                     | 10    | 35    | 45    |
|                        | E | November 30 – Innovation Club Meeting. How to work with buyers of international retailers? Critical Success Factors                                                      | 10    | 37    | 47    |
| Construction Materials | E | Nov Construction Materials presentation to stone cutters in Jalalabad regarding plans for industry                                                                       | 3     | 17    | 20    |
|                        | E | November 3 – Work meeting with CM relevant universities and colleges                                                                                                     | 5     | 3     | 8     |
|                        | E | November 5 – Work meeting with CM stakeholders (private sector)                                                                                                          | 6     | 4     | 10    |
|                        | E | November 2-5 – Meeting with stone cutters companies                                                                                                                      | 13    | 2     | 15    |
| Human Capital          | T | October 30 – BGI Presentation for HICD Conference organized by GGPAS                                                                                                     | 24    | 43    | 67    |
|                        | E | November – Kurak Women's Forum in commemorating the UN Women Entrepreneurship Day                                                                                        | 10    | 68    | 78    |
| Women and Youth        | E | November 14-15 – JashtarCamp (annual youth conference)                                                                                                                   | 1,687 | 2,063 | 3,750 |
|                        | T | Nov-21-22 – Jyrgalan Tourism Fest: catering training                                                                                                                     |       | 30    | 30    |
|                        | T | Nov-21-22 – Jyrgalan Tourism Fest: handicrafts training                                                                                                                  |       | 35    | 35    |
|                        | T | Nov-21-22 – Jyrgalan Tourism Fest: Master-class 'how to promote tourist products through social media', and practical session on blogging                                | 20    | 2     | 22    |
| Licensing              | E | October 19 – Presentation of the Draft Law to make amendments to certain legal acts ( Law on Licensing and Permitting System) to Minister of Economy Oleg Pankratov      | 6     | 3     | 9     |
|                        | E | November 19 – Final discussion of the Draft Law to Make Amendments to Certain Legal Acts and proposed changes/comments with Deputy Minister of Economy Daniyar Imanaliev | 5     | 2     | 7     |
| Access to Finance      | T | Purchase Order Product Design Workshop for two partner banks (Demir Bank and KICB)                                                                                       | 8     | 14    | 22    |
| Grants                 | E | November 6 – Grants Program Launch presentation in Bishkek                                                                                                               | 48    | 66    | 114   |
|                        | E | November 17 - Grants Program Launch presentation in Naryn                                                                                                                | 25    | 15    | 40    |
|                        | E | November 19 - Grants Program Launch presentation in Karakol                                                                                                              | 25    | 41    | 66    |
|                        | E | November 24 - Grants Program Launch presentation in Osh                                                                                                                  | 13    | 28    | 41    |
|                        | E | November 24 - Grants Program Launch presentation in Jalal -Abad                                                                                                          | 30    | 19    | 49    |
|                        | E | November 27 - Grants Program Launch presentation in Batken                                                                                                               | 25    | 5     | 30    |
|                        | E | December 1 - Grants Program Launch presentation in Talas                                                                                                                 | 13    | 15    | 28    |
|                        | E | December 4 - Grants Program Launch presentation in Tokmok                                                                                                                | 18    | 23    | 51    |
| Total                  |   |                                                                                                                                                                          | 2,004 | 2,570 | 4,574 |

## Annex B: Table of Deliverables

| Component              | Document                                                                                                                                                                                           | ENG | RUS | PUB? |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----|------|
| Apparel                | Paul Collyers trip/company reports – Oct. Nov, and Dec 2015                                                                                                                                        | X   |     |      |
|                        | Mike Mikkelsen's PPTs in December                                                                                                                                                                  | X   |     |      |
| Tourism                | Reports from Construction engineers for Burana, Jyrgalan, Karakol, and Osh                                                                                                                         | X   |     |      |
|                        | Reports from environmental specialists for Burana, Jyrgalan, Karakol, and Osh                                                                                                                      | X   | X   |      |
|                        | Report from World Tourism Market (WTM) London, Nov                                                                                                                                                 |     |     |      |
| Construction Materials | Power point presentation to stone cutters in Jalalabad November 29                                                                                                                                 | X   | X   |      |
|                        | Power point presentations to USAID- January 27                                                                                                                                                     | X   |     |      |
|                        | Presentation for the meeting with stonecutter companies, November 25, 2015                                                                                                                         | X   | X   |      |
|                        | Minutes of the stonecutter companies meeting                                                                                                                                                       | X   | X   |      |
| Women and Youth        | JashtarCamp reports (agenda, narrative report from the Youth NGO)                                                                                                                                  |     | X   |      |
|                        | Jyrgalan Tourism Fest (agenda, training/master-class hand-outs, narrative reports from the trainer Damira Abdybekova, articles about the destination and event from Svetlana Khlebnikova)          |     | X   | X    |
| Human Capital          | HCD Approach in Apparel and Tourism Value Chains                                                                                                                                                   | X   |     |      |
|                        | BGI Presentation at ISPI EMEA, "Learning Partnership: Embedding Monitoring and Evaluation Models in Organizations in Emerging Markets" October 1-3, 2015                                           | X   |     |      |
|                        | BGI Presentation "The HICD Decade: Was HICD a Game Changer in the International Development" at ISPI EMEA October 1-3, 2015                                                                        | X   |     |      |
|                        | BGI Presentation for HICD Conference organized by GGPAS, Oct 30, 2015                                                                                                                              | X   |     |      |
|                        | BGI Case Study on Tourism for HICD Conference organized by GGPAS, Oct 30, 2015                                                                                                                     | X   | X   |      |
|                        | Trip Report on ISPI EMEA Conference, October 1-3, 2015                                                                                                                                             | X   |     |      |
|                        | List of BGI sponsored participants for Kurak Women's Forum, November 19, 2015                                                                                                                      |     | X   |      |
|                        | Agenda for Kurak Women's Forum, November 19, 2015                                                                                                                                                  |     | X   |      |
| Tax Administration     | Technical report of the Social Fund Contributions Study                                                                                                                                            | X   | X   | No   |
|                        | Draft Regulation on Tax Registration and Maintenance of State Register of Taxpayers in KR                                                                                                          |     | X   | No   |
|                        | Presentation on Indirect Taxation options based on the findings of the analysis (under Fiscal Policy Concept)                                                                                      |     | X   | No   |
| Access to Finance      | Letter of Intent with Bai Tushum Bank                                                                                                                                                              | X   |     |      |
|                        | Letter of Intent with Kyrgyz Investment and Credit Bank (KICB)                                                                                                                                     | X   |     |      |
|                        | Letter of Intent with Demir Bank                                                                                                                                                                   | X   |     |      |
|                        | Purchase Order Finance (POF) Implementation Plan with Bai Tushum Bank                                                                                                                              | X   | X   |      |
|                        | Purchase Order Finance (POF) Implementation Plan with KICB Bank                                                                                                                                    | X   | X   |      |
|                        | Purchase Order Finance (POF) Implementation Plan with Demir Bank                                                                                                                                   | X   | X   |      |
|                        | Letter to Bai Tushum Bank of December 11, 2015 on proposed POF policies and procedures                                                                                                             | X   | X   |      |
|                        | POF Credit policy for Bai Tushum Bank                                                                                                                                                              | X   | X   |      |
|                        | Questions for Clients Visits for Bai Tushum Bank                                                                                                                                                   | X   | X   |      |
|                        | Credit Flow Charts for Bai Tushum Bank                                                                                                                                                             | X   | X   |      |
|                        | Letter to KICB Bank of December 11, 2015 on proposed POF credit policy                                                                                                                             | X   | X   |      |
|                        | POF Credit policy for KICB Bank                                                                                                                                                                    | X   | X   |      |
|                        | Questions for Clients Visits for KICB Bank                                                                                                                                                         | X   | X   |      |
|                        | Credit Flow Charts for KICB Bank                                                                                                                                                                   | X   | X   |      |
|                        | POF Presentation for Partner Banks in November                                                                                                                                                     | X   | X   |      |
| Business Regulations   | Richard P. Currie Exit Report for November 2015                                                                                                                                                    | X   |     |      |
|                        | (updated) Draft Law "On making Amendments and Additions to Certain Legislative Acts of the Kyrgyz Republic", including Government Resolution, Justification Letter, RIA, and the Comparative Table |     | X   | No   |
|                        | Presentation to a new Minister of Economy Kozhoshev of the Draft Law on Licensing and proposed changes                                                                                             |     | X   | No   |

| Component     | Document                                                                                                                                                    | ENG | RUS | PUB? |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----|------|
|               | Draft Law "On making amendments and additions to Law on Procedures for Conducting Inspections of Businesses", including commentary and a comparative table. |     | X   | No   |
|               | Presentation to a new Minister of Economy Kozhoshev of the Draft Law on Inspections and proposed changes                                                    |     | X   | No   |
| <b>Mining</b> | Final Report on Public Awareness Campaign on KR Mining Sector Development Strategy Mining Policy                                                            | X   | X   | No   |
| <b>Grants</b> | "Applying for Grants" book, handout materials for applicants                                                                                                | X   | X   |      |
|               | "Applying for Grants" CDs, handout materials for applicants                                                                                                 |     |     |      |
|               | Presentation for applicants                                                                                                                                 | X   | X   |      |
|               | Leaflet on Grants Program for applicants                                                                                                                    | X   | X   |      |
|               | Report from InStream on logistics assistance in organizing the Grants Launch workshops in 8 locations.                                                      | X   | X   |      |

**USAID Business Growth Initiative (BGI)**  
15 Razzakova Street, Office 6, Second Floor  
Bishkek, Kyrgyz Republic 720040  
Tel: +966 312 66 60 44, 61 04 48  
+966 312 66 16 34